

WASTE CONNECTIONS INC/DE
Form 10-Q
May 08, 2006

**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 March 31, 2006**

or

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

**For the transition period
from _____ to
_____**

Commission file number 1-31507

WASTE CONNECTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-3283464

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

35 Iron Point Circle, Suite 200, Folsom, CA 95630

(Address of principal executive offices) (Zip code)

(916) 608-8200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

As of April 14, 2006: 44,528,546 shares of common stock

WASTE CONNECTIONS, INC.
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share amounts)

	December 31, 2005	March 31, 2006
ASSETS		
Current assets:		
Cash and equivalents	\$ 7,514	\$ 7,847
Accounts receivable, net of allowance for doubtful accounts of \$2,826 and \$2,395 at December 31, 2005 and March 31, 2006, respectively	94,438	89,313
Deferred tax assets	5,145	4,064
Prepaid expenses and other current assets	17,279	18,062
Total current assets	124,376	119,286
Property and equipment, net	700,508	705,367
Goodwill	723,120	725,139
Intangible assets, net	87,651	86,935
Restricted assets	13,888	14,305
Other assets, net	26,764	27,516
	\$ 1,676,307	\$ 1,678,548
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 54,795	\$ 44,783
Book overdraft	8,869	7,186
Accrued liabilities	44,522	45,647
Deferred revenue	30,957	30,947
Current portion of long-term debt and notes payable	10,858	8,619
Total current liabilities	150,001	137,182
Long-term debt and notes payable	586,104	644,049
Other long-term liabilities	20,478	14,919
Deferred income taxes	175,167	178,995
Total liabilities	931,750	975,145
Commitments and contingencies		
Minority interests	26,357	27,010
Stockholders' equity:		
Preferred stock: \$0.01 par value; 7,500,000 shares authorized; none issued and outstanding	-	-
Common stock: \$0.01 par value; 100,000,000 shares authorized; 45,924,686 and 44,455,746 shares issued and outstanding at December 31,	459	445

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2005 and March 31, 2006, respectively

Additional paid-in capital	373,382	307,864
Deferred stock compensation	(2,234)	-
Treasury stock at cost, 106,600 shares outstanding at December 31, 2005	(3,672)	-
Retained earnings	345,308	361,031
Accumulated other comprehensive income	4,957	7,053
Total stockholders' equity	718,200	676,393
	\$ 1,676,307	\$ 1,678,548

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

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

	Three months ended	
	March 31,	
	2005	2006
Revenues	\$ 164,444	\$ 190,169
Operating expenses:		
Cost of operations	94,150	113,063
Selling, general and administrative	17,140	19,801
Depreciation and amortization	14,612	18,232
Gain on disposal of assets	(121)	(82)
Operating income	38,663	39,155
Interest expense	(4,934)	(7,494)
Other income (expense), net	105	(3,993)
Income before income tax provision and minority interests	33,834	27,668
Minority interests	(2,687)	(2,711)
Income from continuing operations before income taxes	31,147	24,957
Income tax provision	(11,587)	(9,234)
Income from continuing operations	19,560	15,723
Loss on discontinued operations, net of tax (Note 3)	(201)	-
Net income	\$ 19,359	\$ 15,723
Basic earnings per common share:		
Income from continuing operations	\$ 0.41	\$ 0.34
Discontinued operations	-	-
Net income per common share	\$ 0.41	\$ 0.34
Diluted earnings per common share:		
Income from continuing operations principle	\$ 0.40	\$ 0.33
Discontinued operations	-	-
Net income per common share	\$ 0.40	\$ 0.33
Shares used in calculating basic income per share	47,486,402	45,669,545
Shares used in calculating diluted income per share	48,878,703	47,590,476

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

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME
Three Months Ended March 31, 2006
(In thousands, except share amounts)
(Unaudited)

STOCKHOLDERS' EQUITY

	COMMON STOCK		ACCUMULATED ADDITIONAL PAID-IN CAPITAL				TREASURY STOCK		OTHER COMPREHENSIVE INCOME		RETAINED EARNINGS	TOTAL
	Shares	Amount	CAPITAL	INCOME	COMPENSATION	Shares	Amounts	EARNINGS				
Balances as of December 31, 2005	45,924,686	\$ 459	\$ 373,382	\$ 4,957	\$ (2,234)	(106,600)	\$ (3,672)	\$ 345,308		\$ 718,200		
Vesting of restricted stock	19,522	-	-	-	-	-	-	-	-	-	-	-
Cancellation of unvested restricted stock	-	-	(372)	-	-	-	-	-	-	-	-	(372)
Stock-based compensation	-	-	618	-	-	-	-	-	-	-	-	618
Exercise of stock options and warrants	756,638	8	20,706	-	-	-	-	-	-	-	-	20,714
Repurchase of common stock	(2,245,100)	(22)	(84,236)	-	-	106,600	3,672	-	-	-	-	(80,586)
Cumulative change from adoption of accounting policy	-	-	(2,234)	-	2,234	-	-	-	-	-	-	-
Amounts reclassified into earnings, net of taxes	-	-	-	(780)	-	-	-	-	-	-	-	(780)
Change in fair value of interest rate swaps, net of taxes	-	-	-	2,876	-	-	-	-	-	-	-	2,876
Net income	\$ 15,723	-	-	-	-	-	-	-	15,723	-	-	15,723
Other comprehensive income	3,327	-	-	-	-	-	-	-	-	-	-	-
Income tax effect of other	(1,231)	-	-	-	-	-	-	-	-	-	-	-

comprehensive
income

Comprehensive income	\$ 17,819	-	-	-	-	-	-	-	-	-
Balances at March 31, 2006	44,455,746	\$ 445	\$ 307,864	\$ 7,053	\$ -	- \$	- \$	- \$	361,031	\$ 676,393

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

WASTE CONNECTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three months ended	
	March 31,	
	2005	2006
Cash flows from operating activities:		
Net income	\$ 19,359	\$ 15,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of assets	(121)	(82)
Depreciation	14,129	17,248
Amortization of intangibles	640	984
Deferred income taxes, net of acquisitions	(3,018)	3,679
Minority interests	2,687	2,711
Amortization of debt issuance costs	296	4,763
Stock-based compensation	255	618
Interest income on restricted assets	(70)	(141)
Closure and post-closure accretion	167	149
Tax benefit on the exercise of stock options	2,358	-
Excess tax benefit on the exercise of stock options	-	(3,353)
Net change in operating assets and liabilities, net of acquisitions	16,184	(4,443)
Net cash provided by operating activities	52,866	37,856
Cash flows from investing activities:		
Payments for acquisitions, net of cash acquired	(6,719)	(3,755)
Capital expenditures for property and equipment	(14,315)	(19,966)
Proceeds from disposal of assets	647	171
Decrease (increase) in restricted assets, net of interest income	1,353	(276)
Increase in other assets	(264)	(392)
Net cash used in investing activities	(19,298)	(24,218)
Cash flows from financing activities:		
Proceeds from long-term debt	37,032	229,964
Principal payments on notes payable and long-term debt	(26,485)	(173,349)
Change in book overdraft	(5,916)	(1,683)
Proceeds from option and warrant exercises	9,285	17,361
Excess tax benefit on the exercise of stock options	-	3,353
Distributions to minority interest holders	(2,401)	(2,058)
Payments for repurchase of common stock	(44,941)	(80,586)
Debt issuance costs	(31)	(6,307)
Net cash used in financing activities	(33,457)	(13,305)
Net increase in cash and equivalents	111	333
Cash and equivalents at beginning of period	3,610	7,514
Cash and equivalents at end of period	\$ 3,721	\$ 7,847

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

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except share, per share and per ton amounts)

1. BASIS OF PRESENTATION AND SUMMARY

The accompanying condensed consolidated financial statements relate to Waste Connections, Inc. and its subsidiaries (“WCI” or “the Company”) as of March 31, 2006 and for the three month periods ended March 31, 2005 and 2006. The consolidated financial statements of the Company include the accounts of Waste Connections, Inc. and its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The Company’s condensed consolidated balance sheet as of March 31, 2006, the condensed consolidated statements of income for the three months ended March 31, 2005 and 2006, the condensed consolidated statements of stockholders’ equity and comprehensive income for the three months ended March 31, 2006, and the condensed consolidated statements of cash flows for the three months ended March 31, 2005 and 2006 are unaudited. In the opinion of management, such consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company’s financial position, results of operations, and cash flows for the periods presented. The consolidated financial statements presented herein should be read in conjunction with the Company’s 2005 annual report on Form 10-K.

In preparing the Company’s consolidated financial statements, several estimates and assumptions are made that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made because certain information that is used in the preparation of the Company’s consolidated financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment. The estimates and the assumptions having the greatest amount of uncertainty, subjectivity and complexity are related to the Company’s accounting for landfills, self-insurance, allocation of acquisition purchase price and asset impairments. Another area that involves estimation is the amount of potential exposure the Company may have with respect to litigation, claims and assessments in accordance with SFAS No. 5, “Accounting for Contingencies.” Actual results for all estimates could differ materially from the estimates and assumptions that the Company uses in the preparation of its consolidated financial statements.

2. NEW ACCOUNTING STANDARDS

SFAS 153. In December 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 153, *Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29* (“SFAS 153”). SFAS 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and amends APB No. 29 to eliminate the exception of nonmonetary exchanges of similar productive assets and replaces it with a general exception of exchanges of nonmonetary assets that do not have commercial substance. A

nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in annual fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 on January 1, 2006 did not have a material impact on the Company's financial position or results of operations.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except share, per share and per ton amounts)

SFAS 154. In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (“SFAS 154”) which replaces APB Opinion No. 20, *Accounting Changes* (“APB 20”), and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specifically, SFAS 154 requires “retrospective application” of the direct effect for a voluntary change in accounting principle to prior periods’ financial statements, if it is practicable to do so. SFAS 154 also strictly redefines the term “restatement” to mean the correction of an error by revising previously issued financial statements. SFAS 154 replaces APB 20, which requires that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Unless adopted early, SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 on January 1, 2006 did not have a material impact on the Company’s financial position or results of operations.

3. DISCONTINUED OPERATIONS

In the second quarter of 2005, the Company disposed of a hauling operation in Utah and exited a landfill operating contract with a finite term in California. The three month period ending March 31, 2005 has been restated to present the results for these operations as discontinued operations.

The table below reflects the discontinued operations for the three months ended March 31, 2005, as follows:

	Three months ended March 31, 2005
Revenues	\$ 1,073
Operating expenses:	
Cost of operations	1,135
Selling, general and administrative	99
Depreciation and amortization	159
Loss on disposal of assets and operations	-
Loss from operations of discontinued operations	(320)
Income tax benefit	119
Loss on discontinued operations	\$ (201)

4. STOCK-BASED COMPENSATION

Effective the beginning of the first quarter of 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123(R)”) for its share-based compensation plans. The Company previously accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”) and related interpretations and disclosure requirements established by SFAS 123, *Accounting for Stock-Based Compensation*. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (“SAB 107”), relating to SFAS 123(R). The Company has applied

the provisions of SAB 107 in its adoption of SFAS 123(R).

Under APB 25, no expense was recorded in the income statement for the Company's stock options granted at fair market value. The pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Expense was recorded in the income statement for restricted stock, restricted stock units, and stock options granted below fair market value on the date of grant.

WASTE CONNECTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except share, per share and per ton amounts)

The Company adopted SFAS 123(R) using the modified prospective method. Under this method, all share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. Prior periods are not restated.

Consistent with prior years, the Company uses the Black-Scholes option pricing model which requires extensive use of accounting judgment and financial estimation, including estimates of the expected term option holders will retain their vested stock options before exercising them, the estimated volatility of the Company's common stock price over the expected term, and the number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation and consequently, the related amounts recognized in the Condensed Consolidated Statements of Income.

Stock-based compensation expense recognized during the first quarter of 2006 totaled approximately \$618 (\$389 net of taxes), or approximately a \$0.01 per share decrease to basic and diluted net income per common share and consisted of stock option, restricted stock unit and restricted stock expense. Stock option expense recognized as a result of adopting SFAS 123(R) was \$91 for the three months ended March 31, 2006. During the fourth quarter of 2005, the Company accelerated the vesting of all unvested stock options. As a result, stock-based compensation in periods subsequent to the acceleration is significantly reduced. This expense was included in "Selling, general and administrative" expenses in the Condensed Consolidated Statements of Income. A contra-equity balance of \$2,234 in "Deferred stock compensation" on the Condensed Consolidated Balance Sheet was reversed as a change in accounting policy upon the adoption of SFAS 123(R) to "Additional paid-in capital" as of January 1, 2006. The total compensation cost at March 31, 2006 related to unvested stock option, restricted stock unit and restricted stock awards was \$13,608 and that future expen