

Altra Industrial Motion Corp.
Form 10-K
February 26, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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: 001-33209

ALTRA INDUSTRIAL MOTION CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

61-1478870
(I.R.S. Employer)

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of incorporation or organization
300 Granite Street, Suite 201 Braintree, MA
(Address of principal executive offices)

Identification No.)
02184
(Zip Code)

Registrant's telephone number, including area code:

(781) 917-0600

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	NASDAQ Global Market

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

NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price (as reported by the NASDAQ Global Market) of such common stock on the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2013) was approximately \$712.2 million.

As of February 19, 2014, there were 27,053,037 shares of Common Stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the following document are incorporated herein by reference into the Part of the Form 10-K indicated.

Part of Form 10-K into

Document

which Incorporated

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Altra Industrial Motion Corp. Proxy Statement

Part III

for the 2014 Annual Meeting of Stockholders

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Item 1. Business
Our Company

Altra Industrial Motion Corp. (Altra or the Company) (formerly Altra Holdings, Inc.) is the parent company of Altra Power Transmission, Inc. (APT) (formerly Altra Industrial Motion, Inc.) and owns 100% of APT 's outstanding capital stock. APT, directly or indirectly, owns 100% of the capital stock of 68 of its subsidiaries and 85% of the capital stock of one of its subsidiaries located in Brazil. The following chart illustrates a summary of our corporate structure:

We are a leading global designer, producer and marketer of a wide range of mechanical power transmission, or MPT, and products serving customers in a diverse group of industries, including energy, general industrial, material handling, mining, transportation, and turf and garden. Our product portfolio includes industrial clutches and brakes, enclosed gear drives, open gearing, belted drives, couplings, engineered bearing assemblies, linear components, gear motors, electronic drives, and other related products. Our products are used in a wide variety of high-volume manufacturing processes, where the reliability and accuracy of our products are critical in both avoiding costly down time and enhancing the overall efficiency of manufacturing operations. Our products are also used in non-manufacturing applications where product quality and reliability are especially critical, such as clutches and brakes for elevators and residential and commercial lawnmowers. For the year ended December 31, 2013, we had net sales of \$722.2 million and net income attributable to Altra Industrial Motion Corp. of \$40.3 million.

We market our products under well recognized and established brands, many of which have been in existence for over 50 years. We believe many of our brands, when taken together with our brands in the same product category have achieved the number one or number two position in terms of consolidated market share and brand awareness in their respective product categories. Our products are either incorporated into products sold by original equipment manufacturers, (OEMs), sold to end users directly, or sold through industrial distributors.

We are led by a highly experienced management team that has established a proven track record of execution, successfully completing and integrating major strategic acquisitions and delivering significant growth in both revenue and profits. We employ a comprehensive business process called the Altra Business System, or ABS, which focuses on eliminating inefficiencies from business processes to improve quality, delivery, and cost.

In this Annual Report on Form 10-K, the terms Altra , Altra Industrial Motion, the Company, we, us and our refer to Altra Industrial Motion Corp. and its subsidiaries, except where the context otherwise requires or indicates.

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We file reports and other documents with the Securities and Exchange Commission. You may read and copy documents we file at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC Filings are also available to you on the SEC's internet site at <http://www.sec.gov>.

Our internet address is www.altramotion.com. By following the link "Investor Relations" and then "SEC filings" on our Internet website, we make available, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such forms are filed with or furnished to the SEC. We are not including information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

History and Acquisitions

Although Altra was incorporated in Delaware in 2004, much of our current business has its roots with the prior acquisition by Colfax Corporation, or Colfax, of the MPT (mechanical power transmission) group of Zurn Technologies, Inc. in December 1996. Colfax subsequently acquired Industrial Clutch Corp. in May 1997, Nuttall Gear Corp. in July 1997 and the Boston Gear and Delroyd Worm Gear brands in August 1997 as part of Colfax's acquisition of Imo Industries, Inc. In February 2000, Colfax acquired Warner Electric, Inc., which sold products under the Warner Electric, Formsprag Clutch, Stieber, and Wichita Clutch brands. Colfax formed Power Transmission Holding, LLC or PTH in June 2004 to serve as a holding company for all of these power transmission businesses. Boston Gear was established in 1877, Warner Electric, Inc. in 1927, and Wichita Clutch in 1949.

On November 30, 2004, we acquired our original core business through the acquisition of PTH from Colfax. We refer to this transaction as the PTH Acquisition.

On October 22, 2004, The Kilian Company, or Kilian, a company formed at the direction of Genstar Capital, then the largest stockholder of Altra, acquired Kilian Manufacturing Corporation from Timken U.S. Corporation. At the completion of the PTH Acquisition, (i) all of the outstanding shares of Kilian capital stock were exchanged for shares of our capital stock and (ii) Kilian and its subsidiaries were transferred to APT.

On February 10, 2006, we purchased all of the outstanding share capital of Hay Hall Holdings Limited, or Hay Hall. Hay Hall was a UK-based holding company established in 1996 that was focused primarily on the manufacture of couplings and clutch brakes. Hay Hall consisted of five main businesses that were niche focused and had strong brand names and established reputations within their primary markets. Through Hay Hall, we acquired 15 strong brands in complementary product lines, improved customer leverage and expanded geographic presence in over 11 countries.

On May 18, 2006, we acquired substantially all of the assets of Bear Linear Inc., now known as Warner Linear. Warner Linear manufactures high value-added linear actuators which are electromechanical power transmission devices designed to move and position loads linearly for mobile off-highway and industrial applications.

On April 5, 2007, we acquired all of the outstanding shares of TB Woods Corporation, or TB Woods. TB Woods is an established designer, manufacturer and marketer of mechanical industrial power transmission products. In December 2007, the Company divested the TB Woods electronics division.

On October 5, 2007, we acquired substantially all of the assets of All Power Transmission Manufacturing, Inc., or All Power, a manufacturer of universal joints.

On May 29, 2011, we acquired substantially all of the assets and liabilities of Danfoss Bauer GmbH relating to its gear motor business, or Bauer. We refer to this transaction as the Bauer Acquisition. Bauer is a European manufacturer of high-quality gear motors, offering engineered solutions to a variety of industries, including material handling, metals, food processing, and energy.

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On July 11, 2012, we acquired 85% of privately held Lamiflex do Brasil Equipamentos Industriais Ltda., now known as Lamiflex Do Brasil Equipamentos Industriais S.A., or Lamiflex. Lamiflex is one of the premier Brazilian manufacturer of high-speed disc couplings, providing engineered solutions to a variety of industries, including oil and gas, power generation, metals and mining.

On November 22, 2013, we changed our legal corporate name from Altra Holdings, Inc. to Altra Industrial Motion Corp.

On December 17, 2013, we completed the acquisition of Svendborg Brakes A/S and S.B. Patent Holding ApS (together Svendborg). We acquired all the issued and outstanding shares of Svendborg from Friction Holding A/S. Svendborg is the leading global manufacturer of premium quality caliper brakes.

Our Industry

Based on industry data supplied by the Power Transmission Distributors Association in collaboration with Industrial Market Information, we estimate that industrial power transmission products generated sales in the United States of approximately \$36.5 billion in 2013. These products are used to generate, transmit, control and transform mechanical energy. The industrial power transmission industry can be divided into three areas: MPT products; motors and generators; and adjustable speed drives. We compete primarily in the MPT area which, based on industry data, we estimate was a \$21.9 billion market in the United States in 2013.

The global MPT market is highly fragmented, with over 1,000 small manufacturers. While smaller companies tend to focus on regional niche markets with narrow product lines, larger companies that generate annual sales of over \$100 million generally offer a much broader range of products and have global capabilities. Buyers of MPT products are broadly diversified across many sectors of the economy and typically place a premium on factors such as quality, reliability, availability, and design and application engineering support. We believe the most successful industry participants are those that leverage their distribution network, their products' reputations for quality and reliability and their service and technical support capabilities to maintain attractive margins on products and gain market share.

Our Strengths

Leading Market Shares and Brand Names. We believe we hold the number one or number two market position in key products across many of our core platforms. We believe that almost 50% of our sales are derived from products where we hold the number one or number two share and brand recognition, assuming our brands in the same product category are taken together, in the markets we serve. In addition, we believe we have recently captured additional market share in several product lines due to our innovative product development efforts and exceptional customer service and product delivery.

Customized, Engineered Products Serving Niche Markets. We employ approximately 296 non-manufacturing engineers involved with product design, research and development, testing and technical customer support, and we often participate in lengthy design and qualification processes with our customers. Many of our product lines involve a large number of unique parts, are delivered in small order quantities with short lead times, and require varying levels of technical support and responsive customer service. As a result of these characteristics, as well as the essential nature of our products to the efficient operations of our customers, we generate a significant amount of recurring sales with repeat customers.

Aftermarket Sales Supported by Large Installed Base. With a history dating back to 1857 with the formation of TB Woods, we believe we benefit from one of the largest installed customer bases in the industry. The moving, wearing nature of our products necessitates regular replacement and our large installed base of products generates significant aftermarket replacement demand. This has created a recurring revenue stream from a diversified group of end-user customers. For 2013, we estimate that approximately 42% of our revenues were derived from aftermarket sales.

Diversified End Markets. Our revenue base has a balanced exposure across a diverse mix of end-user industries, including energy, food processing, general industrial, material handling, mining, transportation, and turf and garden. We believe our diversified end markets insulate us from volatility in any single industry or type

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of end-user. In 2013, no single industry represented more than 10.8% of our total sales. In addition, we are geographically diversified with approximately 40% of our sales coming from outside North America during 2013.

Strong Relationships with Distributors and OEMs. We have over 1,000 direct OEM customers and enjoy established, long-term relationships with the leading industrial MPT distributors, critical factors that contribute to our high base of recurring aftermarket revenues. We sell our products through more than 3,000 distributor outlets worldwide. We believe our scale, expansive product lines and end-user preference for our products make our product portfolio attractive to both large and multi-branch distributors, as well as regional and independent distributors in our industry.

Experienced, High-Caliber Management Team. We are led by a highly experienced management team with over 250 years of cumulative industrial business experience and an average of 15 years with our companies. Our CEO, Carl Christenson, has over 30 years of experience in the MPT industry, while our CFO, Christian Storch, has approximately 25 years of experience. Our management team has established a proven track record of execution, successfully completing and integrating major strategic acquisitions and delivering significant growth and profitability.

The Altra Business System. We benefit from an established culture of lean management emphasizing quality, delivery and cost through the Altra Business System, or ABS. ABS is at the core of our performance-driven culture and drives both our strategic development and operational improvements. We continually evaluate every aspect of our business to identify productivity improvements and cost savings.

Our Business Strategy

Our long-term strategy is to increase our sales through organic growth, expand our geographic reach and product offerings through strategic acquisitions and improve our profitability through cost reduction initiatives. We seek to achieve these objectives through the following strategies:

Leverage Our Sales and Distribution Network. We intend to continue to leverage our established, long-term relationships with the industry's leading national and regional distributors to help maintain and grow our revenues. We seek to capitalize on customer brand preferences for our products to generate pull-through aftermarket demand from our distribution channel. We believe this strategy also allows our distributors to achieve higher profit margins, further enhancing our preferred position with them.

Focus Our Strategic Marketing on New Growth Opportunities. We intend to expand our emphasis on strategic marketing to focus on new growth opportunities in key end-user and OEM markets. Through a systematic process that leverages our core brands and products, we seek to identify attractive markets and product niches, collect customer and market data, identify market drivers, tailor product and service solutions to specific market and customer requirements, and deploy resources to gain market share and drive future sales growth.

Accelerate New Product and Technology Development. We focus on aggressively developing new products across our business in response to customer needs in various markets. Our extensive application-engineering know-how drives both new and repeat sales and we have an established history of innovation with over 200 granted patents and pending patent applications worldwide. In total, new products developed by us during the past three years generated approximately \$74 million in revenues during 2013.

Capitalize on Growth and Sourcing Opportunities in the Asia-Pacific Market. We intend to leverage our established sales offices in the Asia Pacific region and expand into regions where we currently do not have sales representation. In 2012, we expanded our manufacturing presence in Asia beyond our current plant in Shenzhen, China, with the addition of our new manufacturing facility in Changzhou, China. In addition, with the Svendborg Acquisition in 2013, we acquired a leased production facility in Shanghai, China. During 2013, we sourced approximately 25.1% of our purchases from low-cost countries, resulting in average cost reductions of approximately 23.1% for these products. Within the next several years, we intend to utilize our sourcing resources in China to increase our current level of low-cost country sourced purchases. We may also consider additional opportunities to outsource some of our production from North American and Western European locations to Asia or lower cost regions.

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Continue to Improve Operational and Manufacturing Efficiencies through ABS. We believe we can continue to improve profitability through cost control, overhead rationalization, global process optimization, continued implementation of lean manufacturing techniques and strategic pricing initiatives. Our operating plan, based on manufacturing centers of excellence, provides additional opportunities to consolidate purchasing processes and reduce costs by sharing best practices across geographies and business lines.

Selectively Pursue Strategic Acquisitions that Complement Our Strong Platform. We have a successful track record of identifying, acquiring and integrating acquisitions. We believe that in the future there may be a number of attractive potential acquisition candidates, in part due to the fragmented nature of the industry. We plan to continue our disciplined pursuit of strategic acquisitions to strengthen our product portfolio, enhance our industry leadership, leverage fixed costs, expand our global footprint, and create value in products and markets that we know and understand.

Products

We, through our subsidiaries, are a leading global designer, producer and marketer of a wide range of electromechanical power transmission products. The Company brings together strong brands covering over 40 product lines with production facilities in eleven countries. Altra's leading brands include Ameridrives Couplings, Bauer Gear Motor, Bibby Turboflex, Boston Gear, Delroyd Worm Gear, Formsprag Clutch, Huco, Industrial Clutch, Inertia Dynamics, Kilian Manufacturing, Lamiflex Couplings, Marland Clutch, Matrix, Nuttall Gear, Stieber Clutch, Svendborg Brakes, TB Woods, Twiflex, Warner Electric, Warner Linear, and Wichita Clutch. Our products serve a wide variety of end markets including aerospace, energy, food processing, general industrial, material handling, mining, petrochemical, transportation and turf and garden. We primarily sell our products to OEMs and through long-standing relationships with the industry's leading industrial distributors such as Motion Industries, Applied Industrial Technologies, Kaman Industrial Technologies and W.W. Grainger. The following discussion of our products does not include detailed product category revenue because such information is not individually tracked by our financial reporting system and is not separately reported by our general purpose financial statements. Conducting a detailed product revenue internal assessment and audit would involve unreasonable effort and expense as revenue information by product line is not available. We maintain sales information by operating facility, but do not maintain any accounting sales data by product line.

Our products, principal brands and markets and sample applications are set forth below:

Products	Principal Brands	Principal Markets	Sample Applications
Clutches and Brakes	Warner Electric, Wichita Clutch, Formsprag Clutch, Stieber Clutch, Svendborg Brakes, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Marland Clutch	Aerospace, energy, material handling, metals, turf and garden, mining	Elevators, forklifts, lawn mowers, oil well draw works, punch presses, conveyors
Gearing	Boston Gear, Nuttall Gear, Delroyd, Bauer Gear Motor	Food processing, material handling, metals, transportation	Conveyors, ethanol mixers, packaging machinery, metal processing equipment
Engineered Couplings	Ameridrives, Bibby Transmissions, TB Woods, Lamiflex	Energy, metals, plastics, chemical	Extruders, turbines, steel strip mills, pumps

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Products	Principal Brands	Principal Markets	Sample Applications
Engineered Bearing Assemblies	Kilian	Aerospace, material handling, transportation	Cargo rollers, seat storage systems, conveyors
Power Transmission Components	Warner Electric, Boston Gear, Huco Dynatork, Warner Linear, Matrix, TB Woods	Material handling, metals, turf and garden	Conveyors, lawn mowers, machine tools
Engineered Belted Drives	TB Woods	Aggregate, HVAC, material handling	Pumps, sand and gravel conveyors, industrial fans

Our products are used in a wide variety of high-volume manufacturing processes, where the reliability and accuracy of our products are critical in both avoiding costly down time and enhancing the overall efficiency of manufacturing operations. Our products are also used in non-manufacturing applications where product quality and reliability are especially critical, such as clutches and brakes for elevators and residential and commercial lawnmowers.

Clutches and Brakes. Clutches are devices which use mechanical, magnetic, hydraulic, pneumatic, or friction type connections to facilitate engaging or disengaging two rotating members. Brakes are combinations of interacting parts that work to slow or stop machinery. We manufacture a variety of clutches and brakes in three main product categories: electromagnetic, overrunning and heavy duty. Our core clutch and brake manufacturing facilities are located in Connecticut, Indiana, Illinois, Michigan, Texas, the United Kingdom, Germany, France, Denmark and China.

Electromagnetic Clutches and Brakes. Our industrial products include clutches and brakes with specially designed controls for material handling, forklift, elevator, medical mobility, mobile off-highway, baggage handling and plant productivity applications. We also offer a line of clutch and brake products for walk-behind mowers, residential lawn tractors and commercial mowers. While industrial applications are predominant, we also manufacture several vehicular niche applications including on-road refrigeration compressor clutches and agricultural equipment clutches. We market our electromagnetic products under the Warner Electric, Inertia Dynamics and Matrix brand names.

Overrunning Clutches. Specific product lines include indexing and backstopping clutches. Primary industrial applications include conveyors, gear reducers, hoists and cranes, mining machinery, machine tools, paper machinery, packaging machinery, pumping equipment and other specialty machinery. We market and sell these products under the Formsprag, Marland, and Stieber brand names.

Heavy Duty Clutches and Brakes. Our heavy duty clutch and brake product lines serve various markets including metal forming, off-shore and land-based oil and gas drilling platforms, mining, material handling, marine applications and various off-highway and construction equipment segments. Our line of heavy duty pneumatic, hydraulic and caliper clutches and brakes are marketed under the Wichita Clutch, Twiflex, Industrial Clutch and Svendborg Brakes brand names.

Gearing. Gears reduce the output speed and increase the torque of an electric motor or engine to the level required to drive a particular piece of equipment. These products are used in various industrial, material handling, mixing, transportation and food processing applications. Specific product lines include vertical and horizontal gear drives, speed reducers and increasers, high-speed compressor drives, enclosed custom gear drives, various enclosed gear drive and gear motor configurations and open gearing products such as spur, helical, worm and miter/bevel gears. We design and manufacture a broad range of gearing products under the Boston Gear, Nuttall Gear, Delroyd, and Bauer Gear Motor brand names. We manufacture our gearing products at our facilities in New York, North Carolina, Germany, Slovakia, and China, and sell to a variety of end markets.

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Engineered Couplings. Couplings are the interface between two shafts, which enable power to be transmitted from one shaft to the other. Because shafts are often misaligned, we design our couplings with a measure of flexibility that accommodates various degrees of misalignment. Our coupling product line includes gear couplings, high-speed disc and diaphragm couplings, elastomeric couplings, grid couplings, universal joints, jaw couplings and spindles. Our coupling products are used in a wide range of markets including power generation, steel and custom machinery industries. We manufacture a broad range of coupling products under the Ameridrives, Bibby, Lamiflex and TB Wood's brand names. Our engineered couplings are manufactured in our facilities in China, Brazil, Mexico, Pennsylvania, Texas, the United Kingdom and Wisconsin.

Engineered Bearing Assemblies. Bearings are components that support, guide and reduce friction of motion between fixed and moving machine parts. Our engineered bearing assembly product line includes ball bearings, roller bearings, thrust bearings, track rollers, stainless steel bearings, polymer assemblies, housed units and custom assemblies. We manufacture a broad range of engineered bearing products under the Kilian brand name. We sell bearing products to a wide range of end markets, including the general industrial and automotive markets, with a particularly strong OEM customer focus. We manufacture our bearing products at our facilities in New York, Canada and China.

Power Transmission Components. Power transmission components are used in a number of industries to generate, transfer or control motion from a power source to an application requiring rotary or linear motion. Power transmission products are applicable in most industrial markets, including, but not limited to metals processing, turf and garden and material handling applications. Specific product lines include linear actuators, miniature and small precision couplings, air motors, friction materials, hydrostatic drives and other various items. We manufacture or market a broad array of power transmission components under several businesses including Warner Linear, Huco Dynatork, Boston Gear, Warner Electric, TB Wood's and Matrix. Our core power transmission component manufacturing facilities are located in Illinois, Pennsylvania, North Carolina, the United Kingdom and China.

Warner Linear. Warner Linear is a designer and manufacturer of rugged service electromechanical linear actuators for off-highway vehicles, agriculture, turf care, special vehicles, medical equipment, industrial and marine applications.

Huco Dynatork. Huco Dynatork is a leading manufacturer and supplier of a complete range of precision couplings, universal joints, rod ends and linkages.

Other Accessories. Our Boston Gear, Warner Electric, Matrix and TB Wood's businesses make or market several other accessories such as sensors, sleeve bearings, AC/DC motors, shaft accessories, face tooth couplings, mechanical variable speed drives, and fluid power components that are used in numerous end markets.

Engineered Belted Drives. Belted drives incorporate both a rubber-based belt and at least two sheaves or sprockets. Belted drives typically change the speed of an electric motor or engine to the level required for a particular piece of equipment. Our belted drive line includes three types of v-belts, three types of synchronous belts, standard and made-to-order sheaves and sprockets, and split taper bushings. We sell belted drives to a wide range of end markets, including aggregate, energy, chemical and material handling. Our engineered belted drives are primarily manufactured under the TB Wood's brand in our facilities in Pennsylvania and Mexico.

Research and Development and Product Engineering

We closely integrate new product development with marketing, manufacturing and product engineering in meeting the needs of our customers. We have product engineering teams that work to enhance our existing products and develop new product applications for our growing base of customers that require custom solutions. We believe these capabilities provide a significant competitive advantage in the development of high quality industrial power transmission products. Our product engineering teams focus on:

lowering the cost of manufacturing our existing products;

redesigning existing product lines to increase their efficiency or enhance their performance; and

developing new product applications.

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Our continued investment in new product development is intended to help drive customer growth as we address key customer needs.

Sales and Marketing

We sell our products in over 70 countries to over 1,000 direct OEM customers and over 3,000 distributor outlets. We offer our products through our direct sales force comprised of 172 company-employed sales associates as well as independent sales representatives. Our worldwide sales and distribution presence enables us to provide timely and responsive support and service to our customers, many of which operate globally, and to capitalize on growth opportunities in both developed and emerging markets around the world.

We employ an integrated sales and marketing strategy concentrated on both key industries and individual product lines. We believe this dual vertical market and horizontal product approach distinguishes us in the marketplace allowing us to quickly identify trends and customer growth opportunities and deploy resources accordingly. Within our key industries, we market to OEMs, encouraging them to incorporate our products into their equipment designs, to distributors and to end-users, helping to foster brand preference. With this strategy, we are able to leverage our industry experience and product breadth to sell MPT and motion control solutions for a host of industrial applications.

Distribution

Our MPT components are either incorporated into end products sold by OEMs or sold through industrial distributors as aftermarket products to end users and smaller OEMs. We operate a geographically diversified business. For the year ended December 31, 2013, we derived approximately 60% of our net sales from customers in North America, 28% from customers in Europe and 12% from customers in Asia and the rest of the world. Our global customer base is served by an extensive global sales network comprised of our sales staff as well as our network of over 3,000 distributor outlets.

Rather than serving as passive conduits for delivery of product, our industrial distributors are active participants in influencing product purchasing decisions in the MPT industry. In addition, distributors play a critical role through stocking inventory of our products, which amplifies the accessibility of our products to aftermarket buyers. It is for this reason that distributor partner relationships are so critical to the success of the business. We enjoy strong established relationships with the leading distributors as well as a broad, diversified base of specialty and regional distributors.

Competition

We operate in highly fragmented and very competitive markets within the MPT market. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, such as helical gear drives, and some of our competitors are larger than us and have greater financial and other resources. In particular, we compete with Emerson Power Transmission Manufacturing LP, Rexnord Corporation, and Regal-Beloit Corporation. In addition, with respect to certain of our products, we compete with divisions of our OEM customers. Competition in our business lines is based on a number of considerations including quality, reliability, pricing, availability and design and application engineering support. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, regular investment in manufacturing, customer service, and support, marketing, sales, research and development and intellectual property protection is required. We may have to adjust the prices of some of our products to stay competitive. In addition, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. There is substantial and continuing pressure on major OEMs and larger distributors to reduce costs, including the cost of products purchased from outside suppliers such as us. As a result of cost pressures from our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, find reliable, cost-effective outside component suppliers or manufacturers for our products. See *Risk Factors Risks Related to our Business We operate in the highly competitive mechanical power transmission industry and if we are not able to compete successfully our business may be significantly harmed.*

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Intellectual Property

We rely on a combination of patents, trademarks, copyright, and trade secret laws in the United States and other jurisdictions, as well as employee and third-party non-disclosure agreements, license arrangements, and domain name registrations to protect our intellectual property. We sell our products under a number of registered and unregistered trademarks, which we believe are widely recognized in the MPT industry. With the exception of Boston Gear, Warner Electric, TB Wood s, Svendborg and Bauer we do not believe any single patent, trademark or trade name is material to our business as a whole. Any issued patents that cover our proprietary technology and any of our other intellectual property rights may not provide us with adequate protection or be commercially beneficial to us and, patents applied for, may not be issued. The issuance of a patent is not conclusive as to its validity or its enforceability. Competitors may also be able to design around our patents. If we are unable to protect our patented technologies, our competitors could commercialize technologies or products which are substantially similar to ours.

With respect to proprietary know-how, we rely on trade secret laws in the United States and other jurisdictions and on confidentiality agreements. Monitoring the unauthorized use of our technology is difficult and the steps we have taken may not prevent unauthorized use of our technology. The disclosure or misappropriation of our intellectual property could harm our ability to protect our rights and our competitive position.

Some of our registered and unregistered trademarks include: Warner Electric, Boston Gear, TB Wood s, Kilian, Nuttall Gear, Ameridrives, Wichita Clutch, Formsprag, Bibby Transmissions, Stieber, Matrix, Inertia Dynamics, Twiflex, Industrial Clutch, Huco Dynatork, Marland, Delroyd, Warner Linear, Bauer Gear Motor, PowerFlex and Svendborg Brakes.

Employees

As of December 31, 2013, we had 3,810 full-time employees, of whom approximately 51% were located in North America (primarily U.S.), 32% in Europe, and 17% in Asia and the rest of the world. Approximately 10% of our full-time factory U.S. employees are represented by labor unions. In addition, approximately 691 employees or 57% of our European employees are represented by labor unions or works councils. Approximately 66 employees in the Kilian production facilities in Toronto, Canada are unionized under a collective bargaining agreement. Approximately 25 employees in the Lamiflex production facilities in Brazil are represented by a works council. Additionally, approximately 47 employees in the TB Wood s production facilities in Mexico are unionized under collective bargaining agreements that are subject to annual renewals.

We are a party to four U.S. collective bargaining agreements. The agreements will expire in June 2014, July 2014, October 2014 and October 2016.

We are also party to a collective bargaining agreement with union employees at our Toronto, Canada manufacturing facility. That agreement will expire in July 2015.

One of the four U.S. collective bargaining agreements contains provisions for additional, potentially significant, lump-sum severance payments to all employees covered by that agreement who are terminated as the result of a plant closing and one of our collective bargaining agreements contains provisions restricting our ability to terminate or relocate operations. See *Risk Factors Risks Related to Our Business We may be subject to work stoppages at our facilities, or our customers may be subjected to work stoppages, which could seriously impact our operations and the profitability of our business.*

Our facilities in Europe and Brazil have employees who are generally represented by local or national social works councils. Social works councils meet with employer industry associations periodically to discuss employee wages and working conditions. Our facilities in Denmark, France, Germany, Slovakia, and Brazil often participate in such discussions and adhere to any agreements reached.

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Suppliers and Raw Materials

We obtain raw materials, component parts and supplies from a variety of sources, generally from more than one supplier. Our suppliers and sources of raw materials are based in both the United States and other countries and we believe that our sources of raw materials are adequate for our needs for the foreseeable future. We do not believe the loss of any one supplier would have a material adverse effect on our business or results of operations. Our principal raw materials are steel and copper. We generally purchase our materials on the open market, where certain commodities such as steel and copper have fluctuated in price significantly in recent years. We have not experienced any significant shortage of our key materials and have not historically engaged in hedging transactions for commodity suppliers.

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, repairs or enhancements at our facilities, excessive demand, raw material shortages, or other reasons, could impair our ability, and that of our suppliers, to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

Seasonality

We experience seasonality in our turf and garden business, which in recent years has represented approximately 7.4% of our net sales. As our large OEM customers prepare for the spring season, our shipments generally start increasing in December, peak in February and March, and begin to decline in April and May. This allows our customers to have inventory in place for the peak consumer purchasing periods for turf and garden products. The June-through-November period is typically the low season for us and our customers in the turf and garden market. Seasonality can also be affected by weather and the level of housing starts.

Regulation

We are subject to a variety of government laws and regulations that apply to companies engaged in international operations. These include compliance with the Foreign Corrupt Practices Act, U.S. Department of Commerce export controls, local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings). We maintain controls and procedures to comply with laws and regulations associated with our international operations. In the event we are unable to remain compliant with such laws and regulations, our business may be adversely affected.

Environmental and Health and Safety Matters

We are subject to a variety of federal, state, local, foreign and provincial environmental laws and regulations, including those governing health and safety requirements, the discharge of pollutants into the air or water, the management and disposal of hazardous substances and wastes and the responsibility to investigate and cleanup contaminated sites that are or were owned, leased, operated or used by us or our predecessors. Some of these laws and regulations require us to obtain permits, which contain terms and conditions that impose limitations on our ability to emit and discharge hazardous materials into the environment and periodically may be subject to modification, renewal and revocation by issuing authorities. Fines and penalties may be imposed for non-compliance with applicable environmental laws and regulations and the failure to have or to comply with the terms and conditions of required permits. From time to time, our operations may not be in full compliance with the terms and conditions of our permits. We periodically review our procedures and policies for compliance with environmental laws and requirements. We believe that our operations generally are in material compliance with applicable environmental laws and requirements and that any non-compliance would not be expected to result in us incurring material liability or cost to achieve compliance. Historically, the costs of achieving and maintaining compliance with environmental laws and requirements have not been material.

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Certain environmental laws in the United States, such as the federal Superfund law and similar state laws, impose liability for the cost of investigation or remediation of contaminated sites upon the current or, in some cases, the former site owners or operators and upon parties who arranged for the disposal of wastes or transported or sent those wastes to an off-site facility for treatment or disposal, regardless of when the release of hazardous substances occurred or the lawfulness of the activities giving rise to the release. Such liability can be imposed without regard to fault and, under certain circumstances, can be joint and several, resulting in one party being held responsible for the entire obligation. As a practical matter, however, the costs of investigation and remediation generally are allocated among the viable responsible parties on some form of equitable basis. Liability also may include damages to natural resources. We have not been notified that we are a potentially responsible party in connection with any sites we currently or formerly owned or operated. From time to time, we are notified that we are a potentially responsible party and may have liability in connection with off-site disposal facilities. To date, we have generally resolved matters involving off-site disposal facilities for a nominal sum although there can be no assurance that we will be able to resolve pending and future matters in a similar fashion.

Executive Officers of Registrant

The following sets forth certain information with regard to our executive officers as of February 19, 2014 (ages are as of December 31, 2013):

Michael L. Hurt (age 68), P.E. has been our Executive Chairman since January 2009. Prior to his current position, Mr. Hurt served as Chief Executive Officer and a director since our formation in 2004. In November 2006, Mr. Hurt was elected as chairman of our board. During 2004, prior to our formation, Mr. Hurt provided consulting services to Genstar Capital and was appointed Chairman and Chief Executive Officer of Kilian in October 2004. From January 1991 to November 2003, Mr. Hurt was the President and Chief Executive Officer of TB Woods Incorporated, a manufacturer of industrial power transmission products. Prior to TB Woods, Mr. Hurt spent 23 years in a variety of management positions at the Torrington Company, a major manufacturer of bearings and a subsidiary of Ingersoll Rand. Mr. Hurt holds a B.S. degree in Mechanical Engineering from Clemson University and an M.B.A. from Clemson-Furman University.

Carl R. Christenson (age 54) has been our Chief Executive Officer since January 2009 and a director since July 2007. Prior to his current position, Mr. Christenson served as our President and Chief Operating Officer from January 2005 to December 2008. From 2001 to 2005, Mr. Christenson was the President of Kaydon Bearings, a manufacturer of custom-engineered bearings and a division of Kaydon Corporation. Prior to joining Kaydon, Mr. Christenson held a number of management positions at TB Woods Incorporated and several positions at the Torrington Company. Mr. Christenson holds a M.S. and B.S. degree in Mechanical Engineering from the University of Massachusetts and an M.B.A. from Rensselaer Polytechnic.

Christian Storch (age 54) has been our Chief Financial Officer since December 2007. From 2001 to 2007, Mr. Storch was the Vice President and Chief Financial Officer at Standex International Corporation. Mr. Storch also served on the Board of Directors of Standex International from October 2004 to December 2007. Mr. Storch also served as Standex International's Treasurer from 2003 to April 2006 and Manager of Corporate Audit and Assurance Services from July 1999 to 2001. Prior to Standex International, Mr. Storch was a Divisional Financial Director and Corporate Controller at Vossloh AG, a publicly held German transport technology company. Mr. Storch has also previously served as an Audit Manager with Deloitte & Touche, LLP. Mr. Storch holds a degree in business administration from the University of Passau, Germany.

Glenn Deegan (age 47) has been our Vice President, Legal and Human Resources, General Counsel and Secretary since June 2009. Prior to his current position, Mr. Deegan served as our General Counsel and Secretary since September 2008. From March 2007 to August 2008, Mr. Deegan served as Vice President, General Counsel and Secretary of Averion International Corp., a publicly held global provider of clinical research services. Prior to Averion, from June 2001 to March 2007, Mr. Deegan served as Director of Legal Affairs and then as Vice President, General Counsel and Secretary of

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MacroChem Corporation, a publicly held specialty pharmaceutical company. From 1999 to 2001, Mr. Deegan served as Assistant General Counsel of Summit Technology, Inc., a publicly held manufacturer of ophthalmic laser systems. Mr. Deegan previously spent over six years engaged in the private practice of law and also served as law clerk to the Honorable Francis J. Boyle in the United States District Court for the District of Rhode Island. Mr. Deegan holds a B.S. from Providence College and a J.D. from Boston College.

Gerald Ferris (age 64) has been our Vice President of Global Sales since May 2007 and held the same position with Power Transmission Holdings, LLC, our Predecessor, since March 2002. He is responsible for the worldwide sales of our broad product platform. Mr. Ferris joined our Predecessor in 1978 and since joining has held various positions. He became the Vice President of Sales for Boston Gear in 1991. Mr. Ferris holds a B.A. degree in Political Science from Stonehill College.

Todd B. Patriacca (age 44) has been our Vice President of Finance, Corporate Controller and Treasurer since February 2010. Prior to his current position, Mr. Patriacca served as our Vice President of Finance, Corporate Controller and Assistant Treasurer since October 2008 and previous to that, as Vice President of Finance and Corporate Controller since May 2007 and as Corporate Controller since May 2005. Prior to joining us, Mr. Patriacca was Corporate Finance Manager at MKS Instrument Inc., a semi-conductor equipment manufacturer since March 2002. Prior to MKS, Mr. Patriacca spent over ten years at Arthur Andersen LLP in the Assurance Advisory practice. Mr. Patriacca is a Certified Public Accountant and holds a B.A. in History from Colby College and an M.B.A. and an M.S. in Accounting from Northeastern University.

Craig Schuele (age 50) has been our Vice President of Marketing and Business Development since May 2007 and held the same position with our Predecessor since July 2004. Prior to his current position, Mr. Schuele has been Vice President of Marketing since March 2002, and previous to that he was a Director of Marketing. Mr. Schuele joined our Predecessor in 1986 and holds a B.S. degree in Management from Rhode Island College.

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Item 1A. Risk Factors
Risks Related to Our Business

We operate in the highly competitive mechanical power transmission industry and if we are not able to compete successfully our business may be significantly harmed.

We operate in highly fragmented and very competitive markets in the MPT industry. Some of our competitors have achieved substantially more market penetration in certain of the markets in which we operate, such as helical gear drives, and some of our competitors are larger than us and have greater financial and other resources. With respect to certain of our products, we compete with divisions of our OEM customers. Competition in our business lines is based on a number of considerations, including quality, reliability, pricing, availability, and design and application engineering support. Our customers increasingly demand a broad product range and we must continue to develop our expertise in order to manufacture and market these products successfully. To remain competitive, regular investment in manufacturing, customer service, and support, marketing, sales, research and development and intellectual property protection is required. In the future we may not have sufficient resources to continue to make such investments and may not be able to maintain our competitive position within each of the markets we serve. We may have to adjust the prices of some of our products to stay competitive.

Additionally, some of our larger, more sophisticated customers are attempting to reduce the number of vendors from which they purchase in order to increase their efficiency. If we are not selected to become one of these preferred providers, we may lose market share in some of the markets in which we compete.

There is substantial and continuing pressure on major OEMs and larger distributors to reduce costs, including the cost of products purchased from outside suppliers. As a result of cost pressures from our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, to find reliable, cost effective outside suppliers to source components or manufacture our products. If we are unable to generate sufficient cost savings in the future to offset price reductions, then our gross margin could be materially adversely affected.

Changes in or the cyclical nature of our markets could harm our operations and financial performance.

Our financial performance depends, in large part, on conditions in the markets that we serve and on the U.S. and global economies in general. Some of the markets we serve are highly cyclical, such as the metals, mining, industrial equipment and energy markets. In such an environment, expected cyclical activity or sales may not occur or may be delayed and may result in significant quarter-to-quarter variability in our performance. Any sustained weakness in demand, downturn or uncertainty in cyclical markets may reduce our sales and profitability.

We rely on independent distributors and the loss of these distributors could adversely affect our business.

In addition to our direct sales force and manufacturer sales representatives, we depend on the services of independent distributors to sell our products and provide service and aftermarket support to our customers. We support an extensive distribution network, with over 3,000 distributor locations worldwide. Rather than serving as passive conduits for delivery of product, our independent distributors are active participants in the overall competitive dynamics in the MPT industry. During the year ended December 31, 2013, approximately 34% of our net sales from continuing operations were generated through independent distributors. In particular, sales through our largest distributor accounted for approximately 8% of our net sales for the year ended December 31, 2013. Almost all of the distributors with whom we transact business offer competitive products and services to our customers. In addition, the distribution agreements we have are typically non-exclusive and cancelable by the distributor after a short notice period. The loss of any major distributor or a substantial number of smaller distributors or an increase in the distributors' sales of our competitors' products to our customers could materially reduce our sales and profits.

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We must continue to invest in new technologies and manufacturing techniques; however, our ability to develop or adapt to changing technology and manufacturing techniques is uncertain and our failure to do so could place us at a competitive disadvantage.

The successful implementation of our business strategy requires us to continuously invest in new technologies and manufacturing techniques to evolve our existing products and introduce new products to meet our customers' needs in the industries we serve and want to serve. For example, motion control products offer more precise positioning and control compared to industrial clutches and brakes. If manufacturing processes are developed to make motion control products more price competitive and less complicated to operate, our customers may decrease their purchases of MPT products.

Our products are characterized by performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. We believe that our customers rigorously evaluate their suppliers on the basis of a number of factors, including:

product quality and availability;

price competitiveness;

technical expertise and development capability;

reliability and timeliness of delivery;

product design capability;

manufacturing expertise; and

sales support and customer service.

Our success depends on our ability to invest in new technologies and manufacturing techniques to continue to meet our customers' changing demands with respect to the above factors. We may not be able to make required capital expenditures and, even if we do so, we may be unsuccessful in addressing technological advances or introducing new products necessary to remain competitive within our markets. Furthermore, our own technological developments may not be able to produce a sustainable competitive advantage. If we fail to invest successfully in improvements to our technology and manufacturing techniques, our business may be materially adversely affected.

Our operations are subject to international risks that could affect our operating results.

Our net sales outside North America represented approximately 40% of our total net sales for the year ended December 31, 2013. In addition, we sell products to domestic customers for use in their products sold overseas. We also source a significant portion of our products and materials from overseas, a practice which is increasing. Our business is subject to risks associated with doing business internationally, and our future results could be materially adversely affected by a variety of factors, including:

fluctuations in currency exchange rates;

exchange rate controls;

tariffs or other trade protection measures and import or export licensing requirements;

potentially negative consequences from changes in tax laws;

interest rates;

unexpected changes in regulatory requirements;

**Executive Incentive Plan
Long-Term Awards in Year Ended December 31, 2004**

	Performance or Other Period Until Maturation or Payout		Estimated Future Payouts Under Non-Stock Price-Based Plans(1)		
			Threshold	Target	Maximum
James E. O Connor	1/1/04	12/31/06	\$ 137,000	\$ 548,000	\$ 822,000
Michael J. Cordesman	1/1/04	12/31/06	62,500	250,000	375,000
Tod C. Holmes	1/1/04	12/31/06	91,250	365,000	547,500
David A. Barclay	1/1/04	12/31/06	62,500	250,000	375,000

(1) See Executive Incentive Plan on page 19 for a general description of the criteria to be applied in determining the amounts payable as long-term awards.

Compensation of Directors

During 2004, we paid each of our non-employee directors and those directors who are not full-time members of the company's management a \$40,000 annual retainer, an additional annual retainer of \$10,000 for each board committee chairmanship held and \$1,500 for each board or committee meeting attended. In addition, under our 1998 Stock Incentive Plan, each non-employee director and those directors who are not full-time members of the company's management received deferred stock units equal to 3,000 shares of our common stock.

In addition to the retainer and meeting fees that we pay our non-employee directors and those directors who are not full-time members of the company's management, under our 1998 Stock Incentive Plan, we make an initial grant of deferred stock units to each non-employee director upon joining the board. In 2004, Mr. Wickham received 5,000 deferred stock units upon his appointment to the board in October. During 2005, we will make an initial grant of 6,000 deferred stock units to each non-employee director upon joining the board. Thereafter, we will make annual grants of 4,000 deferred stock units to each of our non-employee directors and those directors who are not full-time members of the company's management who remain a member of our board. The deferred stock units

are deferred until the director's board service ends. As of March 15, 2005, we have granted 4,000 deferred stock units to each of our non-employee directors and those directors who are not full-time members of the company's management for their 2005 service. We also reimburse our non-employee directors and those directors who are not full-time members of the company's management for reasonable expenses incurred for attending board of director and committee meetings. We have not adopted any other policies regarding directors' compensation and benefits.

Employment Agreements

James E. O'Connor. We entered into a three-year employment agreement with James E. O'Connor to serve as our President and Chief Executive Officer, effective as of October 25, 2000 and as amended on January 31, 2003. The agreement will continue in effect on a rolling three year basis, meaning that at any time during the agreement, three years will remain in the term of the agreement. The agreement provides that Mr. O'Connor will continue his service on our board of directors and that Mr. O'Connor will be nominated for election to our board of directors at each annual meeting of stockholders during the term of the agreement. Per the agreement, Mr. O'Connor's annual salary is \$790,000 unless our board of directors expressly provides otherwise. Mr. O'Connor received an annual base salary of \$790,000 for our 2002 fiscal year and, based on the board of directors' annual review of Mr. O'Connor, the board determined to increase his annual base salary to \$840,000 per year effective August 1, 2003. For 2004, Mr. O'Connor received a grant of 3,000 shares of restricted stock in lieu of a salary increase. Mr. O'Connor's annual salary may be increased at any time at the discretion of our board of directors to reflect merit or for other increases.

In addition to his base salary, Mr. O'Connor was and is eligible for an annual bonus of up to 90% of his annual base salary through the term of the agreement. Mr. O'Connor's annual bonus is based on the achievement of corporate goals and objectives established by our board of directors or an appropriate committee of the board of directors. Under the agreement, Mr. O'Connor is entitled to participate in our stock option plans and other employee compensation programs that we may establish. Mr. O'Connor also is entitled to health, life and disability insurance and he may participate in other benefit programs that we may establish. Mr. O'Connor is also entitled to be reimbursed annually for financial, estate and tax planning activities in an amount not to exceed two percent of his annual base salary.

Under the agreement, we may terminate Mr. O'Connor at any time with or without cause and Mr. O'Connor may at any time terminate his employment with or without good reason, in each case as defined in the agreement. If we terminate Mr. O'Connor without cause or if Mr. O'Connor terminates his employment with good reason, then Mr. O'Connor will be entitled to the following as severance payments:

Mr. O'Connor will continue to receive his salary through the date of termination and afterwards for three years from the date of termination,

Mr. O'Connor will continue to receive his health benefits for a period ending no later than the third anniversary of the date of termination,

all of Mr. O'Connor's stock options or other stock grants will immediately vest in full and remain exercisable until the earlier of their expiration or three years from the date of termination,

all incentive cash grants shall immediately vest and be payable to Mr. O Connor as if all targets and conditions had been met, except where a specific service is required of Mr. O Connor for a specific period of time, in which case the maximum amount of the incentive cash grant will be payable on a pro rata basis, and

Mr. O Connor will be paid the balance of all amounts credited to his deferred compensation account.

Upon a change of control, as defined in the agreement, if, within two years after the change of control, Mr. O Connor's employment is terminated by us without cause or if Mr. O Connor terminates his employment with good reason, then we are required to pay Mr. O Connor:

the severance payments described above, paid in a single lump sum, and

three times the maximum annual bonus that Mr. O Connor would have been eligible to receive in the fiscal year when the termination occurred, paid in a single lump sum.

Under the agreement, Mr. O Connor is subject to confidentiality obligations, as well as non-compete and non-solicitation covenants, for a three-year period following the termination of his employment.

Any successor to our company will be required to assume and perform all of our covenants, agreements and obligations under the agreement.

Tod C. Holmes. We entered into a two-year employment agreement with Tod C. Holmes to serve as our Senior Vice President and Chief Financial Officer, effective as of October 25, 2000 and as amended on January 31, 2003. The agreement will continue in effect on a rolling two-year basis. Per the agreement, Mr. Holmes' salary is \$350,000 unless our board of directors expressly provides otherwise. Mr. Holmes received an annual base salary of \$350,000 for our 2002 fiscal year and, based on our board of directors' annual review of Mr. Holmes, the board determined to increase his annual base salary to \$400,000 per year effective August 1, 2003. For 2004, Mr. Holmes received a grant of 1,500 shares of restricted stock in lieu of a salary increase. Mr. Holmes' annual salary may be increased at any time at the discretion of our board of directors to reflect merit or for other increases.

In addition to his base salary, Mr. Holmes was and is eligible for an annual bonus of up to 60% of his annual base salary through the term of the agreement. Mr. Holmes' annual bonus is based on the achievement of corporate goals and objectives established by our board of directors or an appropriate committee of the board of directors. Under the agreement, Mr. Holmes is entitled to participate in our stock option plans and other employee compensation programs that we may establish. Mr. Holmes also is entitled to health, life, and disability insurance and he may participate in other benefit programs that we may establish. Mr. Holmes is also entitled to be reimbursed annually for financial, estate and tax planning activities in an amount not to exceed two percent of his annual base salary.

Under the agreement, we may terminate Mr. Holmes at any time with or without cause and Mr. Holmes may at any time terminate his employment with or without good reason, in each case as defined in the agreement. If we terminate Mr. Holmes

without cause or if Mr. Holmes terminates his employment with good reason, then Mr. Holmes will be entitled to the following as severance payments:

Mr. Holmes will continue to receive his salary through the date of termination and afterwards for two years from the date of termination,

Mr. Holmes will continue to receive his health benefits for a period ending no later than the second anniversary of the date of termination,

all of Mr. Holmes' stock options or other stock grants will immediately vest in full and will remain exercisable until the earlier of their expiration or two years from the date of termination,

all incentive cash grants shall immediately vest and be payable to Mr. Holmes as if all targets and conditions had been met, except where a specific service is required of Mr. Holmes for a specific period of time, in which case the maximum amount of the incentive cash grant will be payable on a pro rata basis, and

Mr. Holmes will be paid the balance of all amounts credited to his deferred compensation account.

Upon a change of control, as defined in the agreement, if, within two years after the change of control, Mr. Holmes' employment is terminated by us without cause or if Mr. Holmes terminates his employment with good reason, then we are required to pay Mr. Holmes:

three times his annual salary, paid in a single lump sum,

three times the maximum annual bonus that Mr. Holmes would have been eligible to receive in the fiscal year when the termination occurred, paid in a single lump sum, and

the additional severance payments and benefits described above.

Under the agreement, Mr. Holmes is subject to confidentiality obligations, as well as non-compete and non-solicitation covenants, for a three-year period following the termination of his employment.

Any successor to our company will be required to assume and perform all of our covenants, agreements and obligations under the agreement.

David A. Barclay. We entered into a two-year employment agreement with David A. Barclay to serve as our Senior Vice President and General Counsel, effective as of October 25, 2000 and as amended on January 31, 2003. The agreement is substantially on the same terms as Mr. Holmes' agreement, which is described above, except that Mr. Barclay received an annual base salary of \$300,000 for our 2002 fiscal year and, based on the board of directors annual review of Mr. Barclay, the board determined to increase his annual base salary to \$325,000 effective August 1, 2003. For 2004, Mr. Barclay received a grant of 1,500 shares of restricted stock in lieu of a salary increase. Also, Mr. Barclay was and is eligible for an annual bonus of up to 50% of his annual base salary through the term of the agreement.

Michael J. Cordesman. We entered into a two-year employment agreement with Michael J. Cordesman to serve as our President and Chief Operating Officer, effective as of January 31, 2003, and as amended on February 28, 2003. The agreement is substantially

on the same terms as Mr. Holmes' agreement, which is described above, except that Mr. Cordesman received an annual base salary of \$360,000 from February 28, 2003 until July 31, 2003, and received an annual base salary of \$425,000 from August 1, 2003 until February 29, 2004, prorated for the partial year. Mr. Cordesman's salary for any year after February 29, 2004 will be \$425,000 unless our board of directors expressly provides otherwise. For 2004, Mr. Cordesman received a grant of 1,500 shares of restricted stock in lieu of a salary increase. Also, Mr. Cordesman was and is eligible for an annual bonus of up to 70% of his annual base salary during the 2003 fiscal year and each year thereafter, through the term of the agreement.

Harris W. Hudson. We entered into a six and one-half year employment agreement with Harris W. Hudson to serve as our Vice Chairman, effective as of July 31, 2001. Mr. Hudson received an annual base salary of \$500,000 for our 2002 fiscal year, \$400,000 for our 2003 fiscal year, \$300,000 for our 2004 fiscal year and will receive \$200,000 for our 2005 fiscal year and \$100,000 for our 2006 and 2007 fiscal years. Unless earlier terminated in accordance with its terms, Mr. Hudson's agreement will expire on December 31, 2007. The agreement provides that Mr. Hudson will continue his service on our board of directors and that Mr. Hudson will be nominated for election to our board of directors at each annual meeting of stockholders during the term of the agreement.

Mr. Hudson will not participate in any bonus program. During the term of the agreement, Mr. Hudson is entitled to health, life and disability insurance. During the term of the agreement, Mr. Hudson will participate in our stock option plans on the same basis that our independent directors participate in these plans. Stock options previously granted to Mr. Hudson will continue to vest and be exercisable in accordance with the terms of the options granted.

Under the agreement, we may terminate Mr. Hudson at any time with or without cause and Mr. Hudson may terminate his employment with or without good reason, in each case as defined in the agreement. If we terminate Mr. Hudson without cause or if Mr. Hudson terminates his employment with good reason, then Mr. Hudson will be entitled to the following as severance payments:

Mr. Hudson will continue to receive his salary through the end of the term of the agreement,

Mr. Hudson will continue to receive his health benefits for a period ending no later than the third anniversary of the date of termination, and

all of Mr. Hudson's stock options or other stock grants will immediately vest in full and will remain exercisable until the earlier of their expiration or December 31, 2009.

Upon a change of control, as defined in the agreement, if, within two years after a change of control, Mr. Hudson's employment is terminated by us without cause or if Mr. Hudson terminates his employment with good reason, and if Mr. Hudson so elects, we are required to pay to him the severance payments described above in a single lump sum.

Under the agreement, Mr. Hudson is subject to confidentiality obligations, as well as non-compete and non-solicitation covenants, for a three-year period following the termination of employment.

Any successor to the company will be required to assume and perform all of our covenants, agreements and obligations under the agreement.

Stock Incentive Plan

In July 1998, we adopted the Republic Services, Inc. 1998 Stock Incentive Plan, which was amended and restated on March 6, 2002 and again on January 29, 2004. As amended and restated to date, the 1998 Stock Incentive Plan provides for the grant of options to purchase shares of common stock, stock appreciation rights, restricted stock and deferred stock to employees and non-employee directors at the discretion of our board of directors. We have reserved 27,000,000 shares of common stock for issuance under the 1998 Stock Incentive Plan.

As of March 14, 2005, we had options to purchase 12,393,547 shares of our common stock outstanding under our 1998 Stock Incentive Plan. Beginning in 2004, in addition to prior option grants, we granted restricted stock to our executive officers and deferred stock units to our directors who were not full-time members of the company's management. During 2005, we have granted options to purchase 1,661,000 shares of our common stock, 82,000 shares of restricted stock and 24,000 deferred stock units. 4,222,373 shares remain available for grants and awards under our 1998 Stock Incentive Plan.

Executive Incentive Plan

The Executive Incentive Plan authorizes the granting of annual awards and long-term awards to executive officers selected from time to time by the compensation committee to participate in the plan. Annual awards are designed to recognize the annual achievement by a participant of short-term goals and objectives of the company. Long-term awards are designed to recognize the impact of the participant upon the achievement by the company of longer term success in enhancing shareholder values.

Annual Awards. Our executive officers are eligible to receive annual awards under our Executive Incentive Plan based upon achieving predetermined levels of (a) earnings per share and (b) free cash flow. Free cash flow is defined as cash provided by operating activities less purchases of property and equipment, plus proceeds from the sale of property and equipment.

Long-Term Awards. Long-term awards under the Executive Incentive Plan are based on three-year rolling performance periods of three calendar years each. A new performance period begins on January 1 of each year, and payouts with respect to each performance period are scheduled following the end of each applicable three-year period. The payouts are based upon achieving predetermined levels of (a) cash flow value creation, which we define as net income plus after-tax interest expense plus depreciation, depletion, amortization and accretion less capital charges (net average assets multiplied by our targeted weighted-average cost of capital), and (b) return on invested capital. The committee believes using these variables serves to align management's interests with the company's stockholders. The committee also believes these variables tie long-term

compensation more directly to actual executive performance rather than measures based upon the vagaries of the stock market.

In 2002, after determining that one-time charges incurred in the fourth quarter of 2001 would preclude the executives from achieving the performance targets set at the beginning of 2001 for the three-year period ending December 31, 2003, the compensation committee revised the three-year performance period to a two-year performance period ending December 31, 2003 (thus eliminating the impact of 2001) and reduced the potential awards for such two-year performance period to equal two-thirds of the amounts originally granted for the three-year period.

401(k) Plan

We have adopted a 401(k) Savings and Retirement Plan that qualifies for preferential tax treatment under Section 401(a) of the Internal Revenue Code. Under the plan, all of our employees who are not covered by a collective bargaining agreement may participate in the plan following 90 days of service with the company. In 2005, our employees are permitted to contribute up to 15% of their salaries (up to a maximum contribution of \$14,000 per year, and an additional \$4,000 for employees who are 50 years old or older). We match one-half of the first four percent of an employee's contributions under the plan in shares of our common stock. The match is made on a quarterly basis and is fully vested when made.

Deferred Compensation Plan

In 2003, we amended the Republic Services, Inc. Deferred Compensation Plan. This plan provides an opportunity for our key employees and non-employee directors to make pre-tax payroll-deducted salary, stock grant and/or annual or long-term award deferrals to the respective plans at the beginning of each plan year at any percentage up to 90% for every compensation category, and for some compensation categories, up to 100%.

Employee Stock Purchase Plan

We have adopted the Republic Services, Inc. Amended and Restated Employee Stock Purchase Plan. All of our employees who work at least 20 hours per week and have worked for us at least three months may voluntarily participate in the plan. During specified offering periods, these eligible employees may, through payroll deductions, buy whole and fractional shares of our common stock at a purchase price equal to 85% of the lower of (1) the fair market value of our common stock on the first day of the offering period and (2) the fair market value of our common stock on the last day of the offering period. Employees may sell the common stock purchased under the plan after they have owned the shares for at least 180 consecutive days.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

AUDIT COMMITTEE REPORT

The following statement made by the audit committee shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under either of these acts.

Management is responsible for the company's internal controls, financial reporting processes and compliance with laws and regulations and ethical business standards. The independent auditor is responsible for performing an independent audit of the company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The audit committee's responsibility is to monitor and oversee these processes on behalf of the board of directors.

In this context, the audit committee has reviewed and discussed the audited financial statements with management and the independent auditors. The audit committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

In addition, the audit committee has received from the independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with them their independence from the company and its management. The audit committee has considered whether the independent auditors' provision of audit-related and other non-audit services to the company is compatible with maintaining the auditors' independence.

Finally, the audit committee has evaluated the independent auditors' role in performing an independent audit of the company's financial statements in accordance with generally accepted auditing standards and applicable professional and firm auditing standards, including quality control standards. The audit committee has received assurances from the independent auditors that the audit was subject to its quality control system for its accounting and auditing practice in the United States. The independent auditors have further assured the audit committee that its engagement was conducted in compliance with professional standards and that there was appropriate continuity of personnel working on the audit, availability of national office consultation to conduct the relevant portions of the audit, and availability of personnel at foreign affiliates to conduct the relevant portions of the audit.

In reliance on the reviews, discussions and evaluations referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in the company's annual report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the Securities and Exchange Commission. By recommending to the board of directors that the audited financial statements be so included, the audit committee is not opining on the accuracy, completeness or presentation of the information contained in the audited financial statements.

Audit Committee:

Ramon A. Rodriguez, Chairman

John W. Croghan

W. Lee Nutter

Allan C. Sorensen

Michael W. Wickham

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AUDIT AND RELATED FEES**Audit Fees**

The following table presents the aggregate fees billed to us by Ernst & Young for the audit of our annual financial statements for the fiscal years ended December 31, 2004 and 2003 and other services provided during those periods:

	2003	2004
Audit Fees	\$ 669,491	\$ 1,612,938
Audit-Related Fees	56,644	26,000
Tax Fees		
All Other Fees		
	\$ 726,135	\$ 1,638,938

Fees for audit services include fees associated with the annual audit and Form 10-K, the review of our reports on Form 10-Q and comfort letters. Audit fees for 2004 also include amounts related to Ernst & Young's report on our internal controls in accordance with the Sarbanes-Oxley Act of 2002. Audit-related fees primarily include accounting consultation related to adoption of new pronouncements and employee benefit plan audits.

Pre-Approval Policies and Procedures

Our audit committee pre-approves all fees to be paid to our independent public accountants in accordance with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated in accordance therewith.

PROPOSAL 2**RATIFICATION OF INDEPENDENT PUBLIC ACCOUNTANTS**

Our audit committee has selected the firm of Ernst & Young LLP as independent public accountants of our company and its subsidiaries for the year ending December 31, 2005. This selection will be presented to the stockholders for ratification at the annual meeting. Ernst & Young has been serving our company in this capacity since June 2002. If the stockholders do not ratify the appointment of Ernst & Young, the selection of independent public accountants may be reconsidered by our audit committee. Representatives of Ernst & Young are expected to be present at the annual meeting, will have the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

The board of directors recommends a vote FOR ratification of the appointment of Ernst & Young LLP as the company's independent public accountants for 2005.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of (1) Forms 3 and 4 and amendments to each form furnished to us pursuant to Rule 16a-3(e) under the Exchange Act during our fiscal year ended December 31, 2004, (2) any Forms 5 and amendments to the forms furnished to us with respect to our fiscal year ended December 31, 2004, and (3) any written representations referred to us in subparagraph (b)(2)(i) of Item 405 of Regulation S-K under the Exchange Act, no person who at any time during the fiscal year ended December 31, 2004 was a director, officer or, to our knowledge, a beneficial owner of more than 10% of our common stock failed to file on a timely basis reports required by Section 16(a) of the Exchange Act during the fiscal year ended December 31, 2004 or prior fiscal years.

SECURITY OWNERSHIP OF FIVE PERCENT SHAREHOLDERS

The following table shows certain information as of March 1, 2005 with respect to the beneficial ownership of common stock by each of our stockholders who is known by us to be a beneficial owner of more than 5% of our outstanding common stock.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent
Cascade Investment LLC 2365 Carillon Point, Kirkland, WA 98033	18,078,300(1)	12.1%

(1) Based on Amendment No. 5 to Schedule 13G filed with the SEC by Cascade Investment LLC on February 17, 2004. The shares beneficially owned by Cascade may be deemed beneficially owned by William H. Gates III as the sole member of Cascade. Mr. Gates also may be deemed to beneficially own 900,000 shares of our common stock held by the Bill & Melinda Gates Foundation (the Foundation). Michael Larson, the manager and executive officer of Cascade, has voting and investment power with respect to the common stock held by Cascade. In addition, Mr. Larson acts with investment discretion for Mr. Gates, as sole trustee of the Foundation, in respect of the common stock owned by the Foundation. Mr. Larson disclaims any beneficial ownership of the common stock beneficially owned by Cascade, the Foundation or Mr. Gates.

SECURITY OWNERSHIP OF MANAGEMENT

The following table shows certain information as of March 14, 2005 with respect to the beneficial ownership of common stock by (1) each of our current directors, (2) each of the executive officers listed in the Summary Compensation Table on page 10 and (3) all of our current directors and director nominees and executive officers as a group. We have adjusted share amounts and percentages shown for each individual, entity or group in the table to give effect to shares of common stock that are not outstanding but which the individual, entity or group may acquire upon exercise of all options exercisable within 60 days of March 14, 2005. However, we do not deem these shares of common stock to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other individual, entity or group.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number**	Percent
James E. O Connor	496,980(1)	*
Harris W. Hudson	802,742(2)	*
John W. Croghan	207,000(3)	*
W. Lee Nutter	14,000(4)	*
Ramon A. Rodriguez	97,000(5)	*
Allan C. Sorensen	107,000(6)	*
Michael W. Wickham	9,000(7)	*
Michael J. Cordesman	87,248(8)	*
Tod C. Holmes	226,699(9)	*
David A. Barclay	201,738(10)	*
All directors and executive officers as a group (10 persons)	2,249,407(11)	1.5%

*

Less than 1 percent.

** All share numbers have been rounded to the nearest whole share number.

- (1) The aggregate amount of common stock beneficially owned by Mr. O Connor consists of 30,000 shares owned directly by him, 40,000 shares of restricted stock, vested options to purchase 420,000 shares, 821 shares owned through our 401(k) Plan, 4,525 shares owned through our Deferred Compensation Plan and 1,634 shares owned through our Employee Stock Purchase Plan.
- (2) The aggregate amount of common stock beneficially owned by Mr. Hudson consists of 100 shares owned directly by him, vested options to purchase 795,000 shares, 642 shares owned through our 401(k) Plan and 7,000 deferred stock units.
- (3) The aggregate amount of common stock beneficially owned by Mr. Croghan consists of 103,025 shares owned directly by him, vested options to purchase 100,000 shares and 7,000 deferred stock units.
- (4) The aggregate amount of common stock beneficially owned by Mr. Nutter consists of 5,000 shares owned directly him and 9,000 deferred stock units.
- (5) The aggregate amount of common stock beneficially owned by Mr. Rodriguez consists of vested options to purchase 90,000 shares and 7,000 deferred stock units.
- (6) The aggregate amount of common stock beneficially owned by Mr. Sorensen consists of vested options to purchase 100,000 shares and 7,000 deferred stock units.
- (7) The aggregate amount of common stock beneficially owned by Mr. Wickham consists of 9,000 deferred stock units.
- (8)

The aggregate amount of common stock beneficially owned by Mr. Cordesman consists of 10,500 shares owned directly by him, 26,000 shares of restricted stock, vested options to purchase 48,750 shares, 403 shares owned through our 401(k) Plan, 633 shares owned through our Deferred Compensation Plan and 962 shares owned through our Employee Stock Purchase Plan.

- (9) The aggregate amount of common stock beneficially owned by Mr. Holmes consists of 24,500 shares owned directly by him, 26,000 shares of restricted stock, vested options to acquire 170,000 shares, 1,311 shares owned through our 401(k) Plan, 2,180 shares owned through our Deferred Compensation Plan and 2,708 shares owned through our Employee Stock Purchase Plan.
- (10) The aggregate amount of common stock beneficially owned by Mr. Barclay consists of 13,500 shares owned directly by him, 26,000 shares of restricted stock, vested options to acquire 160,382 shares, 1,128 shares owned through our 401(k) Plan and 728 shares owned through our Deferred Compensation Plan.

- (11) The aggregate amount of common stock beneficially owned by all current directors, director nominees and executive officers as a group consists of (a) 183,600 shares owned directly, (b) 118,000 shares of restricted stock, (c) vested options to purchase 1,884,132 shares, (d) 4,305 shares owned through our 401(k) Plan, (e) 8,066 shares owned through our Deferred Compensation Plan, (f) 46,000 deferred stock units and (g) 5,304 shares owned through our Employee Stock Purchase Plan.

PROPOSAL 3
STOCKHOLDER PROPOSAL

The Amalgamated Bank LongView MidCap 400 Index Fund, which owns more than \$2,000 of the company's common stock, proposes the adoption of the following resolution and has furnished the following statement in support of its proposal:

Resolved: The shareholders of Republic Services, Inc. urge the board of directors to seek shareholder approval for future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executive's base salary plus bonus. Future severance agreements include employment agreements containing severance provisions; retirement agreements; change in control agreements; and agreements renewing, modifying or extending existing such agreements. Benefits include lump-sum cash payments (including payments in lieu of medical and other benefits) and the estimated present value of periodic retirement payments, fringe benefits and consulting fees (including reimbursable expenses) to be paid to the executive.

Supporting Statement: Republic Services has entered into a series of severance agreements, commonly known as golden parachutes, that provide significant compensation to Republic Services' most senior executives if they are terminated or leave the company in certain situations after a change in control at the company.

Thus, the employment agreement for CEO James O' Connor provides that if he is terminated without cause or leaves for good reason within two years after a change in control, Mr. O' Connor would receive:

a cash payment equal to three times his salary and annual bonus;

continued benefit plan coverage for three years;

accelerated vesting of all stock options or other stock grants; and

a tax gross-up payment for any excise taxes owed on this payout.

Severance agreements may be appropriate in some circumstances. Nonetheless, we believe that the potential cost of such agreements entitles shareholders to be heard when a company contemplates paying out at least three times the amount of an executive's salary and bonus.

A shareholder approval requirement may induce restraint when parties negotiate such agreements. Also, if a change in control situation does occur, one reason may be that executives have not managed the company in ways that maximize shareholder value, a factor that argues against overly generous severance pay, or at least in favor of shareholders having a say on compensation in that situation.

Moreover, it can be costly to the shareholders if a company pays the excise tax that an executive owes on golden parachute payouts that exceed his or her average W-2

compensation over the preceding five years. An article in the October 2001 *Journal of Accountancy* estimates that golden parachutes with such gross-up provisions can cost a company over \$3 to pay every \$1 of benefits, and the after-tax costs can be as high as \$5 for every \$1 of benefits.

Because it may not always be practical to obtain prior shareholder approval, Republic Services should have the option, in implementing this proposal, to seek approval after the material terms of the agreement are reached.

Institutional investors such as the California Public Employees Retirement System recommend shareholder approval of these types of agreements in its proxy voting guidelines, and several companies have adopted this policy in recent years.

We urge shareholders to vote **FOR** this proposal.

COMPANY RESPONSE TO STOCKHOLDER PROPOSAL

The company does not believe that this proposal would enhance stockholder value and be in the best interests of Republic Services' stockholders. To the contrary, we believe it could hinder our board of directors' ability to attract and compensate qualified executives.

First, executive compensation matters at Republic Services are overseen by the board of directors through a committee that is, and has always been, comprised exclusively of independent directors. Our executive compensation programs are designed to attract and retain highly qualified executives and to motivate executives to maximize stockholder returns.

The board of directors believes that use of employment and severance agreements for a limited group of key employees is reasonable, appropriate and absolutely necessary. We operate in an industry that has experienced much volatility in the past few years. We need the most qualified executives to set the pace for the future. Like many corporations, we use these types of agreements because they promote stockholders' interests by enabling the company to employ and retain the most qualified executives. The number and type of agreements that Republic Services has with its executives are consistent with industry practice.

In addition, implementation of this proposal would be costly and disruptive to the efficiency of the company. To call a special meeting of stockholders to approve an agreement prior to signing with an executive would result in considerable expense to the company and is unworkable on its face. Alternatively under the proposal, Republic Services could be required to present the agreement to stockholders after the material terms of the agreement are reached. This would mean that we would be unable to assure a potential executive or officer that the agreement would be approved or ratified. As a result of this uncertainty, a candidate could not be sure of the terms of employment and would be more likely to accept a competing offer that provided final terms.

Vote Required and Recommendation of Board of Directors. The affirmative vote of the holders of a majority of the common shares present in person or represented by proxy and entitled to vote on the stockholder proposal is required to approve the stockholder proposal, which is framed as a recommendation to the board of directors. An abstention is treated as being present and entitled to vote on the matter and, therefore, has the effect of a vote against the stockholder proposal. A broker non-vote is treated as not being

entitled to vote on the matter and, therefore, is not counted for purposes of determining whether the stockholder proposal has been approved.

The board of directors recommends a vote AGAINST the adoption of this stockholder proposal. Proxies solicited by the board of directors will be so voted unless stockholders specify otherwise in their proxies.

STOCKHOLDER PROPOSALS AND NOMINATIONS

Any stockholder who wishes to present a proposal for action at our next annual meeting of stockholders, presently scheduled for May 2006, or wishes to nominate a director candidate for our board of directors, must submit such proposal or nomination in writing to the corporate Secretary at Republic Services, Inc., 110 S.E. 6th Street, Fort Lauderdale, Florida 33301. The proposal or nomination should comply with the time period and information requirements as set forth in our by-laws relating to stockholder business or stockholder nominations, respectively. Stockholders interested in submitting a proposal for inclusion in the Proxy Statement for the 2006 annual meeting of stockholders may do so by following the procedures prescribed in SEC Rule 14a-8. To be eligible for inclusion, stockholder proposals must be received by our corporate Secretary at the above address no later than December 1, 2005.

STOCKHOLDER COMMUNICATION WITH THE BOARD OF DIRECTORS

Any stockholder who wishes to communicate with the board of directors, a committee of the board, the non-management directors as a group or any member of the board, may send correspondence to the corporate Secretary at Republic Services, Inc., 110 S.E. 6th Street, Fort Lauderdale, Florida 33301. The corporate Secretary will compile and submit on a periodic basis all stockholder correspondence to the entire board of directors, or, if and as designated in the communication, to a committee of the board, the non-management directors as a group or an individual member. The independent members of the board of directors have approved this process.

OTHER MATTERS

You are again invited to attend the annual meeting at which our management will present a review of our progress and operations.

Management does not intend to present any other items of business and knows of no other matters that will be brought before the annual meeting. However, if any additional matters are properly brought before the annual meeting, the persons named in the enclosed proxy shall vote the proxies in their discretion in the manner they believe to be in the best interest of our company. We have prepared the accompanying form of proxy at the direction of the board of directors and provide it to you at the request of the board of directors. Your board of directors has designated the proxies named therein.

THE COMPANY S ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004, INCLUDING FINANCIAL STATEMENTS, IS BEING MAILED TO STOCKHOLDERS WITH THIS PROXY STATEMENT. A COPY OF THE COMPANY S ANNUAL REPORT ON FORM 10-K FOR 2004 FILED WITH

THE COMMISSION, EXCLUDING EXHIBITS, MAY BE OBTAINED WITHOUT CHARGE BY WRITING TO THE SECRETARY OF THE COMPANY, WHOSE ADDRESS IS 110 S.E. 6TH STREET, FORT LAUDERDALE, FLORIDA 33301 OR BY VISITING THE COMPANY S WEBSITE AT WWW.REPUBLICSERVICES.COM.

APPENDIX A
Republic Services, Inc.
Third Amended and Restated Compensation Committee Charter
January 27, 2005

The Compensation Committee (the *Committee*) is appointed by the Board of Directors (the *Board*) to assist the Board in (i) determining Republic Services, Inc.'s (the *Company*) compensation philosophy and programs, (ii) reviewing and approving corporate goals and objectives relevant to the compensation of the Chief Executive Officer (the *CEO*) and the other executive officers of the Company, including payment of salaries, bonuses and incentive compensation, (iii) evaluating the performance of the CEO in light of those goals and objectives, and determining and approving the CEO's compensation level based on this evaluation, (iv) making recommendations to the Board with respect to the compensation plans, incentive compensation plans and equity-based plans of executive officers, and administering the Company's stock option and other employee benefits plans, including the 1998 Stock Incentive Plan, as amended and restated March 6, 2002 and as further amended on January 29, 2004, and the 401(k) Plan, and (v) producing a compensation committee report on executive compensation as required by the Securities and Exchange Commission (the *SEC*) to be included in the Company's annual proxy statement or annual report on Form 10-K filed with the SEC.

The Committee shall consist of at least three members, one of which shall serve as Chairman. The members of the Committee shall meet the independence requirements of the New York Stock Exchange, the SEC and Section 162(m) of the Internal Revenue Code of 1986, as such requirements may be amended from time to time. The members and the chairperson of the Committee shall be appointed by the Board and may be removed by the Board. Should any member of the Committee cease to be an independent director, such member shall immediately resign his or her membership on the Committee.

The Committee shall meet at least once each year. Additional meetings may be called by the Chairman of the Committee as needed. A majority of the members of the Committee shall constitute a quorum for the transaction of business. Minutes are recorded by the Secretary to the Committee. Approval of any matter by a majority of the members present at a meeting at which a quorum is present shall constitute approval of that matter by the Committee. The Committee may also act by unanimous written consent without a meeting. The Committee may form and delegate authority to sub-committees when appropriate, provided that any such sub-committee must be composed entirely of independent directors and have a published committee charter.

In discharging its duties, the Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall make regular reports to the Board. Nothing in this Charter should be construed as precluding discussion of CEO compensation with the Board generally, as it is not the intent of this Charter to impair communication among members of the Board.

The Committee shall have and may exercise the powers of the Board in matters related to the following duties and responsibilities:

1. In consultation with the Company's Chief Executive Officer, establish a compensation philosophy which, and create and administer programs designed to: (a) fairly reward the Company's executive and other officers for performance benefiting the Company's stockholders, and (b) effectively attracts and retains the executive talent necessary to successfully lead and manage the Company.
2. From time to time review competitive practices and trends, both inside and outside the Company's industry, to determine the adequacy of the Company's executive compensation programs.
3. Evaluate the performance of the Company's Chief Executive Officer.
4. Administer, interpret and implement the Company's executive compensation programs in a manner consistent with the Company's corporate financial goals and compensation philosophy including, without limitation, the following activities:
 - a. Review, consider, and approve participation and eligibility in the various components of the Company's executive compensation programs.
 - b. Review and approve compensation levels for the Company's officers who have been designated as executive officers for purposes of Section 16 of the Securities and Exchange Act of 1934, as amended.
 - c. Review compensation levels for the Company's other officers.
 - d. Review and approve employment contracts and other agreements for the Company's executive and other officers.
 - e. Periodically review executive supplementary benefits and, as appropriate, the organization's retirement, benefit, and special compensation programs involving significant cost.
 - f. Establish annual and long-term performance criteria and goals at the beginning of each performance period, and certify results achieved at the end of each period, for the executive officers of the Company.
5. In consultation with the Company's Chief Executive Officer, establish a general compensation approach and philosophy applicable to the Company's overall employee population.
6. Subject to items that require approval of the Company's Board and/or stockholders, approve and administer the Company's 1998 Stock Incentive Plan, as amended and restated March 6, 2002 and as further amended on January 29, 2004.
7. Prepare annual reports summarizing compensation levels for the Company's five (5) most highly compensated executive officers and explaining the relationship between executive officer compensation and the Company's performance, as required by the Securities and Exchange Commission and generally accepted business practices.
8. Review and recommend to the Board any changes in remuneration paid to members of the Board in connection with service on the Board or on its Committees.
9. Conduct an annual performance evaluation of the Committee.

10. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

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PROXY
REPUBLIC SERVICES, INC.

This proxy is solicited on behalf of the Board of Directors

James E. O Connor and David A. Barclay, each with power of substitution, are hereby authorized to vote all shares of common stock which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders of Republic Services, Inc. to be held on May 12, 2005, or any postponements or adjournments of the meeting, as indicated hereon.

This proxy, when properly executed, will be voted in the manner directed by the undersigned stockholder. If no direction is given, this proxy will be voted FOR the election of all nominees for director, FOR proposal 2 set forth on the other side of this proxy and AGAINST proposal 3 set forth on the other side of this proxy. As to any other matter, said proxies shall vote in accordance with their best judgment.

The undersigned hereby acknowledges receipt of the Notice of the 2005 Annual Meeting of Stockholders, the Proxy Statement, and the Annual Report.

1. Election of directors:	<input type="radio"/> FOR all nominees listed below	<input type="radio"/> WITHHOLD AUTHORITY to vote for all nominees listed below	<input type="radio"/> *EXCEPTIONS (FOR all nominees except as indicated in space below)
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The board of directors unanimously recommends that you vote FOR all nominees. The Nominees: James E. O Connor, Harris W. Hudson, John W. Croghan, W. Lee Nutter, Ramon A. Rodriguez, Allan C. Sorensen and Michael W. Wickham.

* **INSTRUCTIONS:** To withhold authority to vote for any individual nominee, mark the Exceptions box above and write that nominee's name in the space provided below.

Exceptions:

(Continued and to be signed on reverse side)

2. Ratification of the appointment of Independent Public Accountants

FOR AGAINST ABSTAIN

The board of directors unanimously recommends that you vote FOR ratification of the appointment of Ernst & Young LLP as the company's independent public accountants for 2005.

3. Stockholder proposal to require stockholder approval of future severance agreements

FOR AGAINST ABSTAIN

The board of directors unanimously recommends that you vote AGAINST the stockholder proposal.

4. In their discretion, on such other matters as may properly come before the meeting.

Change of Address and/or Comments Mark Here:

Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. If acting as attorney, executor, trustee, or in any representative capacity, sign name and title.

Dated -----, 2005

Signature

Signature if held jointly

Votes must be indicated with x in black or blue ink.

PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN THIS PROXY CARD USING THE ENCLOSED ENVELOPE.