REPUBLIC SERVICES, INC.
Form 10-Q
October 31, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014
or

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

For the transition period from to
Commission File Number: 1-14267

REPUBLIC SERVICES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	65-0716904 (I.R.S. Employer Identification No.)
18500 NORTH ALLIED WAY PHOENIX, ARIZONA (Address of principal executive offices)	85054 (Zip Code)

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

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

On October 23, 2014, the registrant had outstanding 355,538,929 shares of Common Stock, par value $.01 per share (excluding 58,662,751 treasury shares).

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$113.0	$213.3
Accounts receivable, less allowance for doubtful accounts of $40.5 and $38.3, respectively	955.2	890.7
Prepaid expenses and other current assets	180.6	200.3
Deferred tax assets	112.1	117.6
Total current assets	1,360.9	1,421.9
Restricted cash and marketable securities	133.5	169.7
Property and equipment, net	7,149.3	7,036.8
Goodwill	10,760.4	10,724.1
Other intangible assets, net	279.9	315.8
Other assets	303.0	280.9
Total assets	$19,987.0	$19,949.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$517.3	$511.4
Notes payable and current maturities of long-term debt	10.5	15.7
Deferred revenue	311.7	301.8
Accrued landfill and environmental costs, current portion	164.9	178.7
Accrued interest	68.5	68.2
Other accrued liabilities	652.1	641.3
Total current liabilities	1,725.0	1,717.1
Long-term debt, net of current maturities	7,020.0	7,002.4
Accrued landfill and environmental costs, net of current portion	1,495.3	1,464.3
Deferred income taxes and other long-term tax liabilities	1,157.8	1,185.4
Self-insurance reserves, net of current portion	291.8	294.9
Other long-term liabilities	365.8	379.0
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 50 shares authorized; none issued	—	—
Common stock, par value $0.01 per share; 750 shares authorized; 414.1 and 411.0 issued including shares held in treasury, respectively	4.1	4.1
Additional paid-in capital	6,863.5	6,764.9
Retained earnings	2,843.9	2,632.7
Treasury stock, at cost (58.6 and 50.6 shares, respectively)	(1,780.3)	(1,501.2)
Accumulated other comprehensive (loss) income, net of tax	(2.2)	3.0
Total Republic Services, Inc. stockholders' equity	7,929.0	7,903.5

Noncontrolling interests	2.3	2.6
Total stockholders’ equity	7,931.3	7,906.1
Total liabilities and stockholders’ equity	$19,987.0	$19,949.2

The accompanying notes are an integral part of these statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$2,264.1	$2,165.4	$6,563.1	$6,275.7
Expenses:				
Cost of operations	1,397.3	1,317.6	4,091.6	3,950.7
Depreciation, amortization and depletion	235.6	224.4	679.0	651.0
Accretion	19.5	19.2	58.4	57.6
Selling, general and administrative	229.0	209.6	663.8	644.3
Negotiation and withdrawal costs - Central States Pension and Other Funds	0.3	41.6	1.8	157.7
Gain on disposition of assets and impairments, net	—	—	—	(1.9)
Restructuring charges	—	0.7	1.8	8.6
Operating income	382.4	352.3	1,066.7	807.7
Interest expense	(87.0)	(90.0)	(260.8)	(269.8)
Loss on extinguishment of debt	—	—	(1.4)	(2.1)
Interest income	0.1	0.1	0.6	0.5
Other (expense) income, net	(0.1)	1.0	1.2	1.5
Income before income taxes	295.4	263.4	806.3	537.8
Provision for income taxes	109.6	92.3	308.9	185.4
Net income	185.8	171.1	497.4	352.4
Net loss (income) attributable to noncontrolling interests	—	0.3	(0.1)	(0.1)
Net income attributable to Republic Services, Inc.	$185.8	$171.4	$497.3	$352.3
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	$0.52	$0.47	$1.39	$0.97
Weighted average common shares outstanding	356.3	361.7	357.4	362.4
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	$0.52	$0.47	$1.39	$0.97
Weighted average common and common equivalent shares outstanding	357.7	363.0	358.8	363.8
Cash dividends per common share	$0.28	$0.26	$0.80	$0.73

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$185.8	$171.1	$497.4	$352.4
Other comprehensive income (loss), net of tax				
Hedging activity:				
Settlements	0.2	0.3	1.3	1.5
Realized losses (gains) reclassified into earnings	0.3	—	(0.1)	(0.4)
Unrealized (losses) gains	(7.2)	2.1	(6.4)	(0.3)
Pension activity:				
Change in funded status of pension plan obligations	—	5.8	—	5.8
Gains related to pension settlement reclassified into earnings	—	(1.6)	—	(1.6)
Other comprehensive (loss) income, net of tax	(6.7)	6.6	(5.2)	5.0
Comprehensive income	179.1	177.7	492.2	357.4
Comprehensive loss (income) attributable to noncontrolling interests	—	0.3	(0.1)	(0.1)
Comprehensive income attributable to Republic Services, Inc.	$179.1	$178.0	$492.1	$357.3

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions)

	Republic Services, Inc. Stockholders' Equity								
	Common Stock		Additional Paid-In	Retained	Treasury Stock		Accumulated Other Comprehensive (Loss) Income, Net of Tax	Noncontrolling	
	Shares	Amount	Capital	Earnings	Shares	Amount		Interests	Total
Balance as of December 31, 2013	411.0	$4.1	$6,764.9	$2,632.7	(50.6)	$(1,501.2)	$ 3.0	$ 2.6	$7,906.1
Net income	—	—	—	497.3	—	—	—	0.1	497.4
Other comprehensive income	—	—	—	—	—	—	(5.2)	—	(5.2)
Cash dividends declared	—	—	—	(284.8)	—	—	—	—	(284.8)
Issuances of common stock	3.1	—	83.1	—	—	—	—	—	83.1
Stock-based compensation	—	—	15.5	(1.3)	—	—	—	—	14.2
Purchase of common stock for treasury	—	—	—	—	(8.0)	(279.1)	—	—	(279.1)
Distributions paid to noncontrolling interests	—	—	—	—	—	—	—	(0.4)	(0.4)
Balance as of September 30, 2014	414.1	$4.1	$6,863.5	$2,843.9	(58.6)	$(1,780.3)	$ (2.2)	$ 2.3	$7,931.3

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30,	
	2014	2013
Cash provided by operating activities:		
Net income	$497.4	$352.4
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization, depletion and accretion	737.4	708.6
Non-cash interest expense	33.6	35.6
Restructuring related charges	1.8	8.6
Stock-based compensation	14.2	15.8
Deferred tax benefit	(4.7)	(53.9)
Provision for doubtful accounts, net of adjustments	16.3	8.1
Loss on extinguishment of debt	1.4	2.1
Gain on disposition of assets, net and asset impairments	(4.7)	(7.4)
Withdrawal liability - Central States Pension and Other Funds	—	140.7
Environmental adjustments	36.2	101.8
Excess income tax benefit from stock option exercises and other non-cash items	(3.3)	(5.7)
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(77.8)	(70.8)
Prepaid expenses and other assets	(28.0)	(7.8)
Accounts payable	(2.3)	18.4
Restructuring expenditures	(1.0)	(14.8)
Capping, closure and post-closure expenditures	(36.5)	(59.0)
Remediation expenditures	(75.0)	(84.3)
Other liabilities	(3.4)	48.8
Cash provided by operating activities	1,101.6	1,137.2
Cash used in investing activities:		
Purchases of property and equipment	(683.1)	(688.7)
Proceeds from sales of property and equipment	13.9	12.0
Cash used in business acquisitions and development projects, net of cash acquired	(73.5)	(49.0)
Cash proceeds from divestitures, net of cash divested	—	2.7
Change in restricted cash and marketable securities	36.2	(11.3)
Other	(4.5)	(2.3)
Cash used in investing activities	(711.0)	(736.6)
Cash used in financing activities:		
Proceeds from notes payable and long-term debt	939.8	1,098.2
Payments of notes payable and long-term debt	(951.0)	(1,140.6)
Fees paid to issue notes payable	(4.0)	(1.6)
Issuances of common stock	79.5	138.8
Excess income tax benefit from stock option exercises	3.6	3.3
Purchases of common stock for treasury	(277.5)	(214.1)
Cash dividends paid	(279.1)	(254.9)
Distributions paid to noncontrolling interests	(0.4)	—
Other	(1.8)	—

Cash used in financing activities	(490.9)	(370.9)
(Decrease) increase in cash and cash equivalents	(100.3)	29.7
Cash and cash equivalents at beginning of year	213.3	67.6
Cash and cash equivalents at end of period	$113.0	$97.3

The accompanying notes are an integral part of these statements.

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Republic Services, Inc., a Delaware corporation, and its consolidated subsidiaries (also referred to collectively as Republic, we, us, or our), is the second largest provider of non-hazardous solid waste collection, transfer, recycling and disposal services in the United States, as measured by revenue. We manage and evaluate our operations through three geographic regions — East, Central and West, which we have identified as our reportable segments.

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

We have prepared these unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information related to our organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted. In the opinion of management, these financial statements include all adjustments that, unless otherwise disclosed, are of a normal recurring nature and necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of the results you can expect for a full year. You should read these financial statements in conjunction with our audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Management's Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. We must make these estimates and assumptions because certain information we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methodologies. In preparing our financial statements, the more critical and subjective areas that deal with the greatest amount of uncertainty relate to our accounting for our long-lived assets, including recoverability, landfill development costs, and final capping, closure and post-closure costs; our valuation allowances for accounts receivable and deferred tax assets; our liabilities for potential litigation, claims and assessments; our liabilities for environmental remediation, multiemployer pension plans, employee benefit plans, deferred taxes, uncertain tax positions, and self-insurance reserves; and our estimates of the fair values of assets acquired and liabilities assumed in any acquisition. Each of these is discussed in more detail in our description of our significant accounting policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013. Our actual results may differ significantly from our estimates.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board amended the Accounting Standards Codification and created Topic 606, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for Republic beginning January 1, 2017 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is not permitted. We are currently assessing the method of adoption and the potential impact this guidance may have on our consolidated financial position, results of operations or cash flows.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

2. BUSINESS ACQUISITIONS AND RESTRUCTURING CHARGES
Business Acquisitions
We acquired various solid waste businesses during the nine months ended September 30, 2014 and 2013. The purchase price paid for these acquisitions and the allocations of the purchase price follow:

	2014	2013
Purchase price:		
Cash used in acquisitions, net of cash acquired	$73.5	$49.0
Holdbacks	8.2	6.1
Fair value, future guaranteed payments	6.8	—
Total	$88.5	$55.1
Allocated as follows:		
Accounts receivable	3.2	0.6
Landfill airspace	26.6	—
Property and equipment	21.0	11.6
Other assets	4.7	—
Future service obligations	(11.0)	—
Closure and post-closure liabilities	(3.2)	—
Other liabilities	(2.6)	(2.2)
Fair value of assets acquired and liabilities assumed	38.7	10.0
Excess purchase price to be allocated	$49.8	$45.1
Excess purchase price allocated as follows:		
Other intangible assets	$11.2	$18.0
Goodwill	38.6	27.1
Total allocated	$49.8	$45.1

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

In August 2014, we entered into a life-of-site operating agreement for the City of San Angelo Landfill located in Texas, which we have accounted for as the acquisition of a business. Previously, we operated the site on behalf of the City of San Angelo under an agreement that expired in July 2014. Consideration transferred included cash of $10.3 million, of which $9.6 million has been paid, and future guaranteed payments of $6.8 million. We assumed future service obligations of $11.0 million and closure and post-closure obligations of $3.2 million. We allocated $26.6 million of purchase price to landfill airspace and no purchase price was allocated to goodwill.

In October 2014, we acquired all of the shares of Rainbow Disposal Co., Inc. (Rainbow) for $112 million cash and entered into agreements not to compete, along with other restrictive covenants, with key executives. We also assumed capital lease agreements for operational facilities in Southern California. Rainbow's operations in Southern California include hauling routes, a recycling facility, a transfer station, a compressed natural gas (CNG) refueling station, and a CNG-powered vehicle fleet. The acquisition is not material to the Company's results of operations.

Restructuring Charges
During the fourth quarter of 2012, we announced a restructuring of our field and corporate operations to create a more efficient and competitive company. These changes included consolidating our field regions from four to three and our areas from 28 to 20, relocating office space, and reducing administrative staffing levels. During the nine months ended September 30, 2014, we incurred costs of $1.8 million due to a change in estimate of amounts recoverable from sublet income associated with abandoned office space with non-cancellable lease terms. During the nine months ended September 30, 2013, we incurred $8.6 million of restructuring charges, which consisted of severance and other

employee termination benefits, relocation benefits, and the closure of offices with lease agreements with non-cancelable terms. As of September 30, 2014, $2.5 million remains

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accrued for lease exit costs. We expect any future expense related to such activities to be immaterial. Substantially all of these charges were recorded in our corporate segment.

3. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

	Balance as of December 31, 2013	Acquisitions	Adjustments to Acquisitions	Balance as of September 30, 2014
East	$3,020.2	$23.1	$(0.3)	$3,043.0
Central	3,264.8	14.2	(1.3)	3,277.7
West	4,439.1	1.3	(0.7)	4,439.7
Total	$10,724.1	$38.6	$(2.3)	$10,760.4

Adjustments to acquisitions during the nine months ended September 30, 2014 primarily related to deferred tax asset adjustments resulting from the exercise of legacy Allied stock options, which were recorded to goodwill in purchase accounting.

Other Intangible Assets, Net

Other intangible assets, net, include values assigned to customer relationships, franchise agreements, other municipal agreements and non-compete agreements, and are amortized over periods ranging from 1 to 23 years. A summary of the activity and balances in other intangible assets accounts by intangible asset type follows:

	Gross Intangible Assets			Accumulated Amortization			Other Intangible Assets, Net as of September 30, 2014
	Balance as of December 31, 2013	Acquisitions and Other Additions	Balance as of September 30, 2014	Balance as of December 31, 2013	Additions Charged to Expense	Balance as of September 30, 2014	
Customer relationships, franchise and other municipal agreements	$598.9	$8.3	$607.2	$(309.7)	$(44.0)	$(353.7)	$253.5
Non-compete agreements	23.6	2.9	26.5	(14.8)	(2.5)	(17.3)	9.2
Other intangible assets	63.9	—	63.9	(46.1)	(0.6)	(46.7)	17.2
Total	$686.4	$11.2	$697.6	$(370.6)	$(47.1)	$(417.7)	$279.9

4. OTHER ASSETS

Prepaid Expenses and Other Current Assets

A summary of prepaid expenses and other current assets as of September 30, 2014 and December 31, 2013 follows:

	2014	2013
Inventories	$38.2	$37.8
Prepaid expenses	68.0	59.0
Other non-trade receivables	26.6	23.4
Reinsurance receivable	12.7	14.8
Income tax receivable	31.6	55.3

Commodity and fuel hedge assets	0.1	7.0
Other current assets	3.4	3.0
Total	$180.6	$200.3

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Other Assets

A summary of other assets as of September 30, 2014 and December 31, 2013 follows:

	2014	2013
Deferred financing costs	$48.9	$51.4
Deferred compensation plan	76.2	65.1
Notes and other receivables	32.4	19.5
Reinsurance receivable	49.6	46.9
Other	95.9	98.0
Total	$303.0	$280.9

Notes and other receivables includes the fair value of interest rate swaps of $6.6 million as of September 30, 2014.

5. OTHER LIABILITIES

Other Accrued Liabilities

A summary of other accrued liabilities as of September 30, 2014 and December 31, 2013 follows:

	2014	2013
Accrued payroll and benefits	$160.0	$172.7
Accrued fees and taxes	124.2	121.3
Self-insurance reserves, current portion	123.1	136.6
Ceded insurance reserves, current portion	12.7	14.8
Accrued dividends	99.5	93.7
Current tax liabilities	19.6	—
Accrued professional fees and legal settlement reserves	20.0	28.3
Withdrawal liability - Central States Pension and Other Funds	15.9	—
Other	77.1	73.9
Total	$652.1	$641.3

Other accrued liabilities includes the fair value of fuel and recycling commodity hedges of $4.4 million and $0.7 million as of September 30, 2014 and December 31, 2013, respectively.

Other Long-Term Liabilities

A summary of other long-term liabilities as of September 30, 2014 and December 31, 2013 follows:

	2014	2013
Deferred compensation plan	$75.7	$67.0
Pension and other post-retirement liabilities	4.4	6.5
Legal settlement reserves	31.1	27.3
Ceded insurance reserves	49.6	46.9
Withdrawal liability - Central States Pension and Other Funds	143.6	171.4
Other	61.4	59.9
Total	$365.8	$379.0

Other long-term liabilities includes the fair value of interest rate swaps of $4.4 million as of December 31, 2013.

Self-Insurance Reserves

Our liabilities for unpaid and incurred but not reported claims as of September 30, 2014 and December 31, 2013 (which include claims for workers' compensation, general liability, vehicle liability and employee health care benefits) were $414.9 million and $431.5 million, respectively, under our risk management program and are included in other accrued liabilities and self-insurance reserves, net of current portion, in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe the recorded reserves are adequate to cover the future payment of claims; however, it is possible that these recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in our consolidated statements of income in the periods in which they are known.

6. LANDFILL AND ENVIRONMENTAL COSTS

As of September 30, 2014, we owned or operated 190 active solid waste landfills with total available disposal capacity of approximately 4.9 billion in-place cubic yards. We also had post-closure responsibility for 124 closed landfills.

Accrued Landfill and Environmental Costs

A summary of accrued landfill and environmental liabilities as of September 30, 2014 and December 31, 2013 follows:

	2014	2013
Landfill final capping, closure and post-closure liabilities	$1,128.3	$1,091.3
Environmental remediation liabilities	531.9	551.7
Total accrued landfill and environmental costs	1,660.2	1,643.0
Less: current portion	(164.9)	(178.7)
Long-term portion	$1,495.3	$1,464.3

Final Capping, Closure and Post-Closure Costs

The following table summarizes the activity in our asset retirement obligation liabilities, which include liabilities for landfill final capping, closure and post-closure, for the nine months ended September 30, 2014 and 2013:

	2014	2013
Landfill final capping, closure and post-closure liabilities, beginning of year	$1,091.3	$1,052.4
Non-cash additions	29.1	27.2
Acquisitions/divestitures and other adjustments	3.7	(0.6)
Asset retirement obligation adjustments	(17.7)	(1.5)
Payments	(36.5)	(59.0)
Accretion expense	58.4	57.6
Landfill final capping, closure and post-closure liabilities, end of period	1,128.3	1,076.1
Less: current portion	(90.1)	(104.5)
Long-term portion	$1,038.2	$971.6

We review annually, in the fourth quarter, and update as necessary, our estimates of asset retirement obligation liabilities. However, if there are significant changes in the facts and circumstances related to a site during the year, we will update our assumptions prospectively in the period that we know all the relevant facts and circumstances and make adjustments as appropriate.

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure liabilities was $56.8 million and $56.0 million as of September 30, 2014 and December 31, 2013, respectively, and is included in restricted cash and marketable securities in our consolidated balance sheets.

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Landfill Operating Expenses
In the normal course of business, we incur various operating costs associated with environmental compliance. These costs include, among other things, leachate treatment and disposal, methane gas and groundwater monitoring, systems maintenance, interim cap maintenance, costs associated with the application of daily cover materials, and the legal and administrative costs of ongoing environmental compliance. These costs are expensed as cost of operations in the periods in which they are incurred.
Environmental Remediation Liabilities
We accrue for remediation costs when they become probable and can be reasonably estimated. There can sometimes be a range of reasonable estimates of the costs associated with remediation of a site. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amount that is at the low end of the range. It is reasonably possible that we will need to adjust the liabilities recorded for remediation to reflect the effects of new or additional information, to the extent such information impacts the costs, timing or duration of the required actions. If we used the reasonably possible high ends of our ranges, our aggregate potential remediation liability as of September 30, 2014 would be approximately $440 million higher than the amount recorded. Future changes in our estimates of the cost, timing or duration of the required actions could have a material adverse effect on our consolidated financial position, results of operations or cash flows.
The following table summarizes the activity in our environmental remediation liabilities for the nine months ended September 30, 2014 and 2013:

	2014	2013
Environmental remediation liabilities, beginning of year	$551.7	$563.7
Net additions charged to expense	36.2	101.8
Payments	(75.0)	(84.3)
Accretion expense (non-cash interest expense)	19.0	20.0
Environmental remediation liabilities, end of period	531.9	601.2
Less: current portion	(74.8)	(110.4)
Long-term portion	$457.1	$490.8

The following is a discussion of certain of our significant remediation matters:
Bridgeton Landfill. As of December 31, 2013, the remediation liability recorded for our closed Bridgeton Landfill in Missouri was $93.9 million. During the nine months ended September 30, 2014, we paid $50.1 million related to management and monitoring of the remediation area. During that period, we also recorded a charge to earnings of $36.1 million, primarily related to the design and construction of a leachate management facility. As the nature and extent of our leachate remediation efforts continued to change, it became necessary to upgrade treatment facility design features and infrastructure. During the three months ended September 30, 2014, we completed construction of the leachate management facility, but it is not functioning at full capacity and is still in a testing mode. We expect that the facility will function at full capacity late in the fourth quarter of 2014 or in early 2015. We continue to work with state and federal regulatory agencies on our remediation efforts. From time to time, this may require us to modify our future operating timeline and procedures, which could result in changes to our expected liability. As of September 30, 2014, the remediation liability recorded for this site is $79.9 million, of which $16.4 million is expected to be paid during the remainder of 2014. We believe the remaining reasonably possible high end of our range would be approximately $240 million higher than the amount recorded as of September 30, 2014.
Congress Landfill. In August 2010, Congress Development Co. agreed with the State of Illinois to have a Final Consent Order (Final Order) entered by the Circuit Court of Illinois, Cook County. Pursuant to the Final Order, we have agreed to continue to implement remedial activities at the Congress Landfill. The remediation liability recorded as of September 30, 2014 is $83.0 million, of which $1.6 million is expected to be paid during the remainder of 2014.

We believe the remaining reasonably possible high end of our range would be approximately $67 million higher than the amount recorded as of September 30, 2014.

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7. DEBT
The carrying value of our notes payable, capital leases and long-term debt as of September 30, 2014 and December 31, 2013 is listed in the following table in millions, and is adjusted for the fair value of interest rate swaps, unamortized discounts and the unamortized portion of adjustments to fair value recorded in purchase accounting. Original issue discounts and adjustments to fair value recorded in purchase accounting are amortized to interest expense over the term of the applicable instrument using the effective interest method.

		September 30, 2014			December 31, 2013		
Maturity	Interest Rate	Principal	Adjustments	Carrying Value	Principal	Adjustments	Carrying Value
Credit facilities:							
Uncommitted facility	Variable	$—	$—	$—	$—	$—	$—
June 2019	Variable	—	—	—	—	—	—
May 2017	Variable	—	—	—	—	—	—
Senior notes:							
May 2018	3.800	700.0	(0.1)	699.9	700.0	(0.1)	699.9
September 2019	5.500	650.0	(2.6)	647.4	650.0	(2.9)	647.1
March 2020	5.000	850.0	(0.1)	849.9	850.0	(0.1)	849.9
November 2021	5.250	600.0	—	600.0	600.0	—	600.0
June 2022	3.550	850.0	(1.9)	848.1	850.0	(2.0)	848.0
May 2023	4.750	550.0	4.5	554.5	550.0	(5.7)	544.3
March 2035	6.086	275.7	(24.0)	251.7	275.7	(24.5)	251.2
March 2040	6.200	650.0	(0.5)	649.5	650.0	(0.5)	649.5
May 2041	5.700	600.0	(3.3)	596.7	600.0	(3.3)	596.7
Debentures:							
May 2021	9.250	35.3	(1.6)	33.7	35.3	(1.7)	33.6
September 2035	7.400	165.3	(40.6)	124.7	165.2	(41.0)	124.2
Tax-exempt:							
2015 - 2044	0.300 - 5.625	1,083.8	—	1,083.8	1,087.7	—	1,087.7
Other:							
2014 - 2046	5.000 - 12.203	90.6	—	90.6	86.0	—	86.0
Total Debt		$7,100.7	$(70.2)	7,030.5	$7,099.9	$(81.8)	7,018.1
Less: current portion				(10.5)			(15.7)
Long-term portion				$7,020.0			$7,002.4

Loss on Extinguishment of Debt
We refinanced our Credit Facilities and certain of our tax-exempt financings in the second quarter of 2014, resulting in non-cash charges for deferred issuance costs of $1.4 million.
Credit Facilities
In June 2014, we entered into a $1.25 billion unsecured revolving credit facility (the Replacement Credit Facility), which replaced our $1.0 billion credit facility maturing in April 2016. The Replacement Credit Facility matures in June 2019 and includes a feature that allows us to increase availability, at our option, by an aggregate amount up to $500 million through increased commitments from existing lenders or the addition of new lenders. At our option, borrowings under the Replacement Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an applicable margin based on our Debt Ratings (all as defined in the agreements).

Contemporaneous with the execution of the Replacement Credit Facility, we entered into Amendment No. 3 to our existing $1.25 billion unsecured credit facility (the Existing Credit Facility and, together with the Replacement Credit Facility, the Credit Facilities), to reduce the commitments under the Existing Credit Facility to $1.0 billion and conform certain terms of the Existing Credit Facility with those of the Replacement Credit Facility. Amendment No. 3 does not extend the maturity date of the Existing Credit Facility, which matures in May 2017. The Existing Credit Facility also maintains the feature that allows us to increase availability, at our option, by an aggregate amount of up to $500 million, through increased commitments from existing lenders or the addition of new lenders.

Our Credit Facilities are subject to facility fees based on applicable rates defined in the agreements and the aggregate commitments, regardless of usage. Availability under our Credit Facilities can be used for working capital, capital expenditures, letters of credit and other general corporate purposes. The credit agreements require us to comply with financial and other covenants. We may pay dividends and repurchase common stock if we are in compliance with these covenants. As of September 30, 2014 and December 31, 2013, we had no borrowings under our Credit Facilities. We had $610.3 million and $722.1 million of letters of credit using availability under our Credit Facilities, leaving $1,639.7 million and $1,527.9 million of availability under our Credit Facilities as of September 30, 2014 and December 31, 2013, respectively.

We have a $125.0 million unsecured credit facility agreement (the Uncommitted Credit Facility) bearing interest at LIBOR, plus an applicable margin. Our Uncommitted Credit Facility is subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The agreements governing our Uncommitted Credit Facility require us to comply with covenants. The Uncommitted Credit Facility may be terminated by either party at any time. As of September 30, 2014 and December 31, 2013, we had no borrowings under our Uncommitted Credit Facility.

Tax-Exempt Financings

As of September 30, 2014, approximately 90% of our tax-exempt financings are remarketed quarterly by remarketing agents to effectively maintain a variable yield. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds. These bonds have been classified as long-term because of our ability and intent to refinance them using availability under our revolving Credit Facilities, if necessary.

Other Debt

Other debt primarily includes capital lease liabilities of $90.6 million and $85.9 million as of September 30, 2014 and December 31, 2013, respectively, with maturities ranging from 2014 to 2046.

Interest Rate Swap and Lock Agreements

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

Fair Value Hedges

During the second half of 2013, we entered into various interest rate swap agreements relative to our 4.750% fixed rate senior notes due in May 2023. The goal was to reduce overall borrowing costs and rebalance our debt portfolio's ratio of fixed to floating interest rates. As of September 30, 2014, these swap agreements have a total notional value of $300.0 million and mature in May 2023, which is identical to the maturity of the hedged senior notes. We pay interest at floating rates based on changes in LIBOR and receive interest at a fixed rate of 4.750%. These transactions were designated as fair value hedges because the swaps hedge against the changes in fair value of the fixed rate senior notes resulting from changes in interest rates. The majority of these interest rate swaps do not contain credit-risk-related contingent features and we believe our exposure to such features, where applicable, is minimal.

As of September 30, 2014, the interest rate swap agreements are reflected at their fair value of $6.6 million and are included in other assets. As of December 31, 2013, the interest rate swap agreements are reflected at their fair value of $4.4 million and are included in other long-term liabilities. To the extent they are effective, these interest rate swap agreements are included as an adjustment to long-term debt in our consolidated balance sheets. We recognized net interest income of $1.9 million and $5.8 million during the three and nine months ended September 30, 2014, respectively, and $0.6 million during each of the three and

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nine months ended September 30, 2013, related to net swap settlements for these interest rate swap agreements, which is included as an offset to interest expense in our unaudited consolidated statement of income.

For the three and nine months ended September 30, 2014, we recognized a gain of $1.5 million and a loss of $5.6 million on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate, with an offsetting loss of $1.2 million and gain of $6.6 million on the related interest rate swaps, respectively. For each of the three and nine months ended September 30, 2013, we recognized a loss on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate totaling $2.1 million, with an offsetting gain on the related interest rate swaps totaling $2.4 million. The difference of these fair value changes represents hedge ineffectiveness, which is recorded directly in earnings as other (expense) income, net.

Cash Flow Hedges

As of September 30, 2014 and 2013, no interest rate lock cash flow hedges were outstanding. As of September 30, 2014 and December 31, 2013, the effective portion of the interest rate locks, recorded as a component of accumulated other comprehensive income, was $22.0 million and $23.0 million, respectively. The effective portion of the interest rate locks is amortized as an adjustment to interest expense over the life of the issued debt using the effective interest method. We expect to amortize $2.7 million over the next twelve months as a yield adjustment of our senior notes. The effective portion of the interest rate locks amortized as a net increase to interest expense during each of the three months ended September 30, 2014 and 2013 was $0.7 million and for the nine months ended September 30, 2014 and 2013 was $2.0 million and $1.9 million, respectively.

8. INCOME TAXES

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2014 was 37.1% and 38.3%, respectively. The effective tax rate for the three and nine months ended September 30, 2014 was favorably affected by the realization of additional federal and state benefits on our 2013 tax returns, lower state rates due to changes in estimates and adjustments to deferred taxes.

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2013 was 35.0% and 34.5%, respectively. The effective tax rate for the three months ended September 30, 2013 was favorably affected by the realization of additional federal and state benefits on our 2012 tax returns, lower state rates due to changes in estimates and adjustments to deferred taxes. For the nine months ended September 30, 2013, our effective tax rate was favorably impacted, in addition to the matters already discussed, by the resolution of our 2009 to 2010 tax years at the IRS appeals division and the Congressional Joint Committee on Taxation.

Income taxes paid, net of refunds received, were $280.3 million and $196.1 million for the nine months ended September 30, 2014 and 2013, respectively.

We are subject to income tax in the United States and Puerto Rico, as well as in multiple state jurisdictions. We are currently under examination or administrative review by state and local taxing authorities for various tax years. We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of September 30, 2014, we have accrued a liability for penalties of $0.5 million and a liability for interest (including interest on penalties) of $18.1 million related to our uncertain tax positions.

We believe the liabilities for uncertain tax positions recorded are adequate. However, a significant assessment against us in excess of the liabilities recorded could have a material adverse effect on our consolidated financial position, results of operations or cash flows. During the next twelve months, it is reasonably possible the amount of unrecognized tax benefits will increase or decrease. Gross unrecognized benefits we expect to settle in the next twelve months are in the range of $5 to $20 million.

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

extent such evidence can be objectively verified.
The realization of our deferred tax asset for state loss carryforwards ultimately depends upon the existence of sufficient taxable income in the appropriate state taxing jurisdictions in future periods. We continue to regularly monitor both positive and

negative evidence in determining the ongoing need for a valuation allowance. As of September 30, 2014, the valuation allowance associated with our state loss carryforwards was approximately $68 million.

9. STOCK-BASED COMPENSATION

Available Shares

In March 2013, our board of directors approved the Republic Services, Inc. Amended and Restated 2007 Stock Incentive Plan (the Plan). The Plan was ratified by our stockholders in May 2013. We currently have approximately 16.1 million shares of common stock reserved for future grants under the Plan.

Stock Options

The following table summarizes the stock option activity for the nine months ended September 30, 2014:

	Number of Shares (in millions)		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2013	10.5		$28.91		
Granted	0.5		33.76		
Exercised	(2.8	)	27.96		$21.4
Forfeited or expired	(0.3	)	30.85		
Outstanding as of September 30, 2014	7.9		$29.48	4.0	$74.7
Exercisable as of September 30, 2014	3.9		$28.05	3.1	$42.3

During the nine months ended September 30, 2014 and 2013, compensation expense for stock options was $5.2 million and $10.5 million, respectively.

As of September 30, 2014, total unrecognized compensation expense related to outstanding stock options was $6.1 million, which will be recognized over a weighted average period of 1.6 years. The total fair value of stock options that vested during the nine months ended September 30, 2014 was $11.9 million.

Other Stock Awards

The following table summarizes restricted stock unit and restricted stock activity for the nine months ended September 30, 2014:

	Number of Restricted Stock Units and Shares of Restricted Stock (in thousands)		Weighted Average Grant Date Fair Value per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Other stock awards as of December 31, 2013	997.0		$28.48		
Granted	771.4		33.39		
Vested and issued	(255.2	)	28.60		
Forfeited	(66.8	)	32.91		
Other stock awards as of September 30, 2014	1,446.4		$24.01	1.2	$56.4
Vested and unissued as of September 30, 2014	567.0		$39.91		

During the nine months ended September 30, 2014, we awarded our non-employee directors 86,425 restricted stock units, which vested immediately. During the nine months ended September 30, 2014, we awarded 654,545 restricted stock units to executives and employees that either vest in four equal annual installments beginning on the anniversary date of the original grant or cliff vest after four years. In addition, 30,391 restricted stock units were earned as dividend equivalents. The restricted stock units do not carry any voting or dividend rights, except the right to receive additional restricted stock units in lieu of dividends.

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The fair value of restricted stock units and restricted stock is based on the closing market price on the date of the grant. The compensation expense related to restricted stock units and restricted stock is amortized ratably over the vesting period.
During the nine months ended September 30, 2014 and 2013, compensation expense related to restricted stock units and restricted stock totaled $9.0 million and $5.3 million, respectively. As of September 30, 2014, total unrecognized compensation expense related to outstanding restricted stock units was $21.4 million, which will be recognized over a weighted average period of 3.1 years.

10. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE
Our share repurchase program has been in effect since November 2010. From November 2010 to September 30, 2014, we repurchased 43.5 million shares of our stock for $1,316.5 million at a weighted average cost per share of $30.28. During the three months ended September 30, 2014, we repurchased 0.6 million shares of our stock for $21.4 million at a weighted average cost per share of $38.60. During the nine months ended September 30, 2014, we repurchased 8.0 million shares of our stock for $277.3 million at a weighted average cost per share of $34.64. As of September 30, 2014, less than 0.1 million repurchased shares were pending settlement and $1.6 million was unpaid and included within other accrued liabilities.
In July 2014, the board of directors approved a quarterly dividend of $0.28 per share. Cash dividends declared were $284.8 million and $263.5 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, we recorded a quarterly dividend payable of $99.5 million to stockholders of record at the close of business on October 1, 2014.
Basic earnings per share is computed by dividing net income attributable to Republic Services, Inc. by the weighted average number of common shares (including restricted stock and vested but unissued restricted stock units) outstanding during the period. Diluted earnings per share is based on the combined weighted average number of common shares and common share equivalents outstanding, which include, where appropriate, the assumed exercise of employee stock options, unvested restricted stock awards and unvested restricted stock units. In computing diluted earnings per share, we use the treasury stock method.
Earnings per share for the three and nine months ended September 30, 2014 and 2013 are calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	$185,800	$171,400	$497,300	$352,300
Weighted average common shares outstanding	356,252	361,672	357,432	362,418
Basic earnings per share	$0.52	$0.47	$1.39	$0.97
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	$185,800	$171,400	$497,300	$352,300
Weighted average common shares outstanding	356,252	361,672	357,432	362,418
Effect of dilutive securities:				
Options to purchase common stock	1,377	1,288	1,313	1,354
Unvested restricted stock awards	111	42	72	32
Weighted average common and common equivalent shares outstanding	357,740	363,002	358,817	363,804
Diluted earnings per share	$0.52	$0.47	$1.39	$0.97
Antidilutive securities not included in the diluted earnings per share calculations:				
Options to purchase common stock	28	1,793	369	2,157

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11. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS (INCOME) BY COMPONENT

A summary of changes in accumulated other comprehensive loss (income), net of tax, by component, for the nine months ended September 30, 2014 follows:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Items	Total
Balance as of December 31, 2013	$19.3	$(22.3)	$(3.0)
Other comprehensive loss before reclassifications	5.1	—	5.1
Amounts reclassified from accumulated other comprehensive income	0.1	—	0.1
Net current-period other comprehensive loss	5.2	—	5.2
Balance as of September 30, 2014	$24.5	$(22.3)	$2.2

A summary of reclassifications out of accumulated other comprehensive loss (income) for the three and nine months ended September 30, 2014 and 2013 follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Details about Accumulated Other Comprehensive Loss (Income) Components	Amount Reclassified from Accumulated Other Comprehensive Loss (Income)		Amount Reclassified from Accumulated Other Comprehensive Loss (Income)		Affected Line Item in the Statement Where Net Income is Presented
Gains (losses) on cash flow hedges:					
Recycling commodity hedges	$—	$—	$—	$0.1	Revenue
Fuel hedges	0.2	0.7	2.2	2.5	Cost of operations
Interest rate contracts	(0.7)	(0.7)	(2.0)	(1.9)	Interest expense
	(0.5)	—	0.2	0.7	Total before tax
	0.2	—	(0.1)	(0.3)	Tax expense
	(0.3)	—	0.1	0.4	Net of tax
Pension gains:					
Pension settlement	$—	$2.6	$—	$2.6	Selling, general and administrative
	—	(1.0)	—	(1.0)	Tax expense
	—	1.6	—	1.6	Net of tax
Total (losses) gains reclassified into earnings	$(0.3)	$1.6	$0.1	$2.0	

12. FINANCIAL INSTRUMENTS

Fuel Hedges

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

The following table summarizes our outstanding fuel hedges as of September 30, 2014:

Year	Gallons Hedged	Weighted Average Contract Price per Gallon
2014	6,750,000	$3.81
2015	27,000,000	3.76
2016	18,000,000	3.68

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

The fair values of our fuel hedges are determined using standard option valuation models with assumptions about commodity prices based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregated fair values of our outstanding fuel hedges as of September 30, 2014 and December 31, 2013 were current liabilities of $4.4 million and $0.1 million, respectively, and current assets of $0.1 million and $6.7 million, respectively, and have been recorded in other accrued liabilities and prepaid expenses and other current assets in our consolidated balance sheets, respectively. The ineffective portions of the changes in fair values resulted in losses of $0.1 million for each of the three and nine months ended September 30, 2014 and gains of less than $0.1 million for each of the three and nine months ended September 30, 2013, and have been recorded in other (expense) income, net in our consolidated statements of income.

Total (losses) gains recognized in other comprehensive income for fuel hedges (the effective portion) were $(7.1) million and $2.2 million for the three months ended September 30, 2014 and 2013, respectively, and $(6.6) million for the nine months ended September 30, 2014. No amount was recognized in other comprehensive income for the nine months ended September 30, 2013.

Recycling Commodity Hedges

Our revenue from sale of recycling commodities is primarily from sales of old corrugated cardboard (OCC) and old newspaper (ONP). We use derivative instruments such as swaps and costless collars designated as cash flow hedges to manage our exposure to changes in prices of these commodities. We have entered into multiple agreements related to the forecasted OCC and ONP sales. The agreements qualified for, and were designated as, effective hedges of changes in the prices of certain forecasted recycling commodity sales (commodity hedges).

We entered into costless collar agreements on forecasted sales of OCC and ONP. The agreements involve combining a purchased put option giving us the right to sell OCC and ONP at an established floor strike price with a written call option obligating us to deliver OCC and ONP at an established cap strike price. The puts and calls have the same settlement dates, are net settled in cash on such dates and have the same terms to expiration. The contemporaneous combination of options resulted in no net premium for us and represents costless collars. Under these agreements, we will make or receive no payments as long as the settlement price is between the floor price and cap price; however, if the settlement price is above the cap, we will pay the counterparty an amount equal to the excess of the settlement price over the cap times the monthly volumes hedged. If the settlement price is below the floor, the counterparty will pay us the deficit of the settlement price below the floor times the monthly volumes hedged. The objective of these agreements is to reduce variability of cash flows for forecasted sales of OCC and ONP between two designated strike prices.

As of September 30, 2014, we had outstanding costless collar hedges for OCC totaling 18,000 tons with a weighted average floor strike price of $91.50 per ton and a weighted average cap strike price of $145.00 per ton, all of which will be settled in 2014. As of September 30, 2014, there were no outstanding costless collar hedges for ONP. Costless collar hedges are recorded in our consolidated balance sheets at fair value. Fair values of costless collars are determined using standard option valuation models with assumptions about commodity prices based upon forward commodity price curves in underlying markets (Level 2 in the fair value hierarchy).

The aggregated fair values of the outstanding recycling commodity hedges as of September 30, 2014 and December 31, 2013 were current assets of less than $0.1 million and $0.3 million, respectively, and current liabilities of $0.6 million as of December 31, 2013, and have been recorded in prepaid expenses and other current assets and other accrued liabilities in our consolidated balance sheets, respectively. No amounts were recognized in other (expense) income, net in our consolidated statements of income for the ineffectiveness portion of the changes in fair values during each of the three and nine months ended September 30, 2014 and 2013.

Total (losses) gains recognized in other comprehensive income for recycling commodity hedges (the effective portion) were less than $(0.1) million for each of the three months ended September 30, 2014 and 2013, and $0.2 million and $(0.3) million for the nine months ended September 30, 2014 and 2013, respectively.

Fair Value Measurements

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

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

As of September 30, 2014 and December 31, 2013, our assets and liabilities that are measured at fair value on a recurring basis include the following:

		Fair Value Measurements Using			
	Carrying Amount	Total as of September 30, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Money market mutual funds	$68.3	$68.3	$68.3	$—	$—
Bonds - restricted cash and marketable securities	45.7	45.7	—	45.7	—
Fuel hedges - other current assets	0.1	0.1	—	0.1	—
Interest rate swaps - other assets	6.6	6.6	—	6.6	—
Total assets	$120.7	$120.7	$68.3	$52.4	$—
Liabilities:					
Fuel hedges - other accrued liabilities	$4.4	$4.4	$—	$4.4	$—
Total debt	7,030.5	7,645.5	—	7,645.5	—
Total liabilities	$7,034.9	$7,649.9	$—	$7,649.9	$—

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REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

		Fair Value Measurements Using			
	Carrying Amount	Total as of December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Money market mutual funds	$176.0	$176.0	$176.0	$—	$—
Bonds - restricted cash and marketable securities	36.6	36.6	—	36.6	—
Fuel hedges - other current assets	6.7	6.7	—	6.7	—
Commodity hedges - other current assets	0.3	0.3	—	0.3	—
Total assets	$219.6	$219.6	$176.0	$43.6	$—
Liabilities:					
Fuel hedges - other accrued liabilities	$0.1	$0.1	$—	$0.1	$—
Commodity hedges - other accrued liabilities	0.6	0.6	—	0.6	—
Interest rate swaps - other liabilities	4.4	4.4	—	4.4	—
Total debt	7,018.1	7,538.1	—	7,538.1	—
Total liabilities	$7,023.2	$7,543.2	$—	$7,543.2	$—

The fair value of our fixed rate senior notes and debentures was $6.5 billion and $6.4 billion as of September 30, 2014 and December 31, 2013, respectively. The carrying value of these notes and debentures was $5.9 billion and $5.8 billion as of September 30, 2014 and December 31, 2013, respectively. The carrying amounts of our remaining notes payable and tax-exempt financings approximate fair value because interest rates are variable and, accordingly, approximate current market rates for instruments with similar risk and maturities. See Note 7, Debt, for further information related to our debt.

13. SEGMENT REPORTING

We manage and evaluate our operations through three regions: East, Central and West. These three regions are presented below as our reportable segments, which provide integrated waste management services consisting of collection, transfer, recycling and disposal of domestic non-hazardous solid waste.

Summarized financial information concerning our reportable segments for the three and nine months ended September 30, 2014 and 2013 follows:

	Gross Revenue	Intercompany Revenue	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Capital Expenditures	Total Assets
Three Months Ended September 30, 2014							
East	$747.4	$(105.2)	$642.2	$69.1	$109.7	$78.5	$4,550.4
Central	850.3	(164.5)	685.8	83.8	135.1	85.4	5,852.3
West	1,091.6	(199.7)	891.9	91.3	207.3	85.7	8,280.6
Corporate entities	47.9	(3.7)	44.2	10.9	(69.7)	(39.4)	1,303.7
Total	$2,737.2	$(473.1)	$2,264.1	$255.1	$382.4	$210.2	$19,987.0
Three Months Ended September 30, 2013							
East	$729.8	$(104.0)	$625.8	$63.7	$110.4	$106.0	$4,933.8

Central	808.5	(154.6)	653.9	79.4	135.9	96.3	5,807.0
West	1,041.3	(186.8)	854.5	89.3	198.1	69.0	8,290.7
Corporate entities	34.9	(3.7)	31.2	11.2	(92.1)	(44.5)	794.5
Total	$2,614.5	$(449.1)	$2,165.4	$243.6	$352.3	$226.8	$19,826.0

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REPUBLIC SERVICES, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	Gross Revenue	Intercompany Revenue	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Capital Expenditures	Total Assets
Nine Months Ended September 30, 2014							
East	$2,175.3	$(305.8)	$1,869.5	$201.4	$323.1	$177.4	$4,550.4
Central	2,425.9	(463.1)	1,962.8	241.5			