

WASTE MANAGEMENT INC
Form 10-Q
April 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 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 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1309529
(I.R.S. Employer
Identification No.)

1001 Fannin

Suite 4000

Houston, Texas 77002

(Address of principal executive offices)

(713) 512-6200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 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

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 Act). Yes No

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at April 17, 2014 was 465,362,211 (excluding treasury shares of 164,920,250).

PART I.

Item 1. *Financial Statements.*

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Par Value Amounts)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 339	\$ 58
Accounts receivable, net of allowance for doubtful accounts of \$36 and \$33, respectively	1,661	1,699
Other receivables	90	111
Investment in unconsolidated entity		177
Parts and supplies	174	178
Deferred income taxes	96	113
Other assets	175	163
 Total current assets	 2,535	 2,499
Property and equipment, net of accumulated depreciation and amortization of \$16,874 and \$16,723, respectively	12,170	12,344
Goodwill	6,068	6,070
Other intangible assets, net	503	529
Investments in unconsolidated entities	402	414
Other assets	764	747
 Total assets	 \$ 22,442	 \$ 22,603
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 663	\$ 744
Accrued liabilities	1,016	1,069
Deferred revenues	462	475
Current portion of long-term debt	1,216	726
 Total current liabilities	 3,357	 3,014
Long-term debt, less current portion	8,978	9,500
Deferred income taxes	1,815	1,842
Landfill and environmental remediation liabilities	1,532	1,518
Other liabilities	721	727

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Total liabilities	16,403	16,601
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued		
	6	6
Additional paid-in capital	4,607	4,596
Retained earnings	6,342	6,289
Accumulated other comprehensive income	89	154
Treasury stock at cost, 164,985,633 and 165,961,646 shares, respectively	(5,307)	(5,338)
Total Waste Management, Inc. stockholders' equity	5,737	5,707
Noncontrolling interests	302	295
Total equity	6,039	6,002
Total liabilities and equity	\$ 22,442	\$ 22,603

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In Millions, Except per Share Amounts)****(Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Operating revenues	\$ 3,396	\$ 3,336
Costs and expenses:		
Operating	2,232	2,209
Selling, general and administrative	375	390
Depreciation and amortization	317	323
Restructuring	1	8
(Income) expense from divestitures, asset impairments and unusual items	2	4
	2,927	2,934
Income from operations	469	402
Other income (expense):		
Interest expense, net	(121)	(121)
Equity in net losses of unconsolidated entities	(9)	(8)
Other, net	(3)	(11)
	(133)	(140)
Income before income taxes	336	262
Provision for income taxes	99	86
Consolidated net income	237	176
Less: Net income attributable to noncontrolling interests	9	8
Net income attributable to Waste Management, Inc.	\$ 228	\$ 168
Basic earnings per common share	\$ 0.49	\$ 0.36
Diluted earnings per common share	\$ 0.49	\$ 0.36
Cash dividends declared per common share	\$ 0.375	\$ 0.365

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Consolidated net income	\$ 237	\$ 176
Other comprehensive income (loss), net of taxes:		
Derivative instruments, net	(6)	(2)
Available-for-sale securities, net		1
Foreign currency translation adjustments	(59)	(32)
Post-retirement benefit obligation, net		
Other comprehensive income (loss), net of taxes	(65)	(33)
Comprehensive income	172	143
Less: Comprehensive income attributable to noncontrolling interests	9	8
Comprehensive income attributable to Waste Management, Inc.	\$ 163	\$ 135

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$ 237	\$ 176
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	317	323
Deferred income tax benefit	(15)	(25)
Interest accretion on landfill liabilities	21	23
Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets	1	1
Provision for bad debts	13	19
Equity-based compensation expense	15	21
Excess tax benefits associated with equity-based transactions	(1)	(6)
Net gain from disposal of assets	(4)	(3)
Effect of (income) expense from divestitures, asset impairments and unusual items and other	2	15
Equity in net losses of unconsolidated entities, net of dividends	9	8
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	41	88
Other current assets	(10)	(18)
Other assets	2	(3)
Accounts payable and accrued liabilities	(19)	(24)
Deferred revenues and other liabilities	(25)	(18)
Net cash provided by operating activities	584	577
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(11)	(180)
Capital expenditures	(266)	(266)
Proceeds from divestitures of businesses and other assets (net of cash divested)	166	37
Net receipts from restricted trust and escrow accounts	11	
Investments in unconsolidated entities	(4)	(12)
Other	(18)	
Net cash used in investing activities	(122)	(421)
Cash flows from financing activities:		
New borrowings	913	244

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Debt repayments	(928)	(151)
Cash dividends	(174)	(170)
Exercise of common stock options	14	38
Excess tax benefits associated with equity-based transactions	1	6
Distributions paid to noncontrolling interests	(2)	(8)
Other	(3)	
Net cash used in financing activities	(179)	(41)
Effect of exchange rate changes on cash and cash equivalents	(2)	(2)
Increase in cash and cash equivalents	281	113
Cash and cash equivalents at beginning of period	58	194
Cash and cash equivalents at end of period	\$ 339	\$ 307

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**(In Millions, Except Shares in Thousands)****(Unaudited)**

	Waste Management, Inc. Stockholders' Equity Accumulated								
	Total	Additional Common Stock		Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests
Shares		Amounts	Shares				Amounts		
Balance, December 31, 2013	\$ 6,002	630,282	\$ 6	\$ 4,596	\$ 6,289	\$ 154	(165,962)	\$ (5,338)	\$ 295
Consolidated net income	237				228				9
Other comprehensive income (loss), net of taxes	(65)					(65)			
Cash dividends	(174)				(174)				
Equity-based compensation transactions, including dividend equivalents, net of taxes	41			11	(1)		974	31	
Distributions paid to noncontrolling interests	(2)								(2)
Other							2		
Balance, March 31, 2014	\$ 6,039	630,282	\$ 6	\$ 4,607	\$ 6,342	\$ 89	(164,986)	\$ (5,307)	\$ 302

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; Waste Management's wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management or its subsidiaries are the primary beneficiaries as described in Note 13. Waste Management is a holding company and all operations are conducted by its subsidiaries. When the terms the Company, we, us or our are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term WM, we are referring only to Waste Management, Inc., the parent holding company.

We are North America's leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our Solid Waste business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, recycling and resource recovery, and disposal services. Through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, which are presented in this report as Other. Additional information related to our segments can be found in Note 8.

The Condensed Consolidated Financial Statements as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine, and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.