

REPUBLIC SERVICES, INC.

Form 10-Q

October 26, 2018

false--12-31Q320182018-09-300001060391324570560falseLarge Accelerated FilerREPUBLIC SERVICES, INC.false137700000000P3YP5YP4YP1Y38900000345000000057000000.010.0175000000075000000035010000035180000001060391 2018-01-01 2018-09-30 0001060391 2018-10-18 0001060391 2018-09-30 0001060391 2017-12-31 0001060391 2017-07-01 2017-09-30 0001060391 2017-01-01 2017-09-30 0001060391 2018-07-01 2018-09-30 0001060391 us-gaap:CommonStockMember 2017-12-31 0001060391 us-gaap:TreasuryStockMember 2018-01-01 2018-09-30 0001060391 us-gaap:NoncontrollingInterestMember 2018-09-30 0001060391 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0001060391 us-gaap:CommonStockMember 2018-09-30 0001060391 us-gaap:RetainedEarningsMember 2017-12-31 0001060391 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001060391 us-gaap:RetainedEarningsMember 2018-01-01 2018-09-30 0001060391 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-09-30 0001060391 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-09-30 0001060391 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-09-30 0001060391 us-gaap:TreasuryStockMember 2017-12-31 0001060391 us-gaap:RetainedEarningsMember 2018-09-30 0001060391 us-gaap:AccountingStandardsUpdate201409Member 2017-12-31 0001060391 us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0001060391 us-gaap:CommonStockMember 2018-01-01 2018-09-30 0001060391 us-gaap:NoncontrollingInterestMember 2017-12-31 0001060391 us-gaap:TreasuryStockMember 2018-09-30 0001060391 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001060391 us-gaap:AccountingStandardsUpdate201409Member us-gaap:RetainedEarningsMember 2017-12-31 0001060391 2016-12-31 0001060391 2017-09-30 0001060391 us-gaap:AccountingStandardsUpdate201618Member 2017-01-01 2017-09-30 0001060391 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-09-30 0001060391 srt:ScenarioPreviouslyReportedMember 2018-01-01 2018-09-30 0001060391 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2018-07-01 2018-09-30 0001060391 srt:ScenarioPreviouslyReportedMember 2018-07-01 2018-09-30 0001060391 2018-01-01 0001060391 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2017-12-31 0001060391 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 0001060391 rsg:ConsolidationofCustomerServiceLocationsMember 2016-04-01 2016-06-30 0001060391 srt:MinimumMember rsg:FieldRealignmentMember 2018-09-30 0001060391 srt:MaximumMember rsg:FieldRealignmentMember 2018-09-30 0001060391 us-gaap:OtherNoncurrentAssetsMember 2017-01-01 2017-12-31 0001060391 2016-04-01 2016-06-30 0001060391 2016-01-01 2016-01-31 0001060391 2017-01-01 2017-12-31 0001060391 us-gaap:OtherNoncurrentAssetsMember 2018-01-01 2018-09-30 0001060391 rsg:WasteBusinessAcquisitionsMember 2017-09-30 0001060391 rsg:WasteBusinessAcquisitionsMember 2018-01-01 2018-09-30 0001060391 rsg:WasteBusinessAcquisitionsMember 2018-09-30 0001060391 rsg:WasteBusinessAcquisitionsMember 2017-01-01 2017-09-30 0001060391 srt:MinimumMember 2018-01-01 2018-09-30 0001060391 srt:MaximumMember 2018-01-01 2018-09-30 0001060391 2017-12-31 2017-12-31 0001060391 rsg:SegmentGeographicalRegionOneMember 2018-01-01 2018-09-30 0001060391 rsg:SegmentGeographicalRegionOneMember 2017-12-31 0001060391 rsg:SegmentGeographicalRegionTwoMember 2018-01-01 2018-09-30 0001060391 rsg:SegmentGeographicalRegionOneMember 2018-09-30 0001060391 rsg:SegmentGeographicalRegionTwoMember 2017-12-31 0001060391 rsg:SegmentGeographicalRegionTwoMember 2018-09-30 0001060391 us-gaap:OtherIntangibleAssetsMember 2018-01-01 2018-09-30 0001060391 us-gaap:CustomerRelatedIntangibleAssetsMember 2018-01-01 2018-09-30 0001060391 us-gaap:OtherIntangibleAssetsMember 2018-09-30 0001060391 us-gaap:NoncompeteAgreementsMember 2018-09-30 0001060391 us-gaap:NoncompeteAgreementsMember 2018-01-01 2018-09-30 0001060391 us-gaap:CustomerRelatedIntangibleAssetsMember 2017-12-31 0001060391 us-gaap:NoncompeteAgreementsMember 2017-12-31 0001060391 us-gaap:OtherIntangibleAssetsMember 2017-12-31 0001060391 us-gaap:CustomerRelatedIntangibleAssetsMember 2018-09-30 0001060391 us-gaap:AccountingStandardsUpdate201409Member us-gaap:OtherNoncurrentAssetsMember 2018-09-30

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

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended September 30, 2018**

**or**

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

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

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**REPUBLIC SERVICES, INC.**

**(Exact name of registrant as specified in its charter)**

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**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**

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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 every Interactive Data File required to be submitted 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 such files). Yes  No

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



Large accelerated filer  Accelerated filer  Smaller reporting company   
Non-accelerated filer  Emerging growth company

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

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

As of October 18, 2018, the registrant had outstanding 324,570,560 shares of Common Stock, par value \$0.01 per share (excluding treasury shares of 27,244,614).

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CONSOLIDATED BALANCE SHEETS  
(in millions, except per share data)**

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 81.9	\$ 83.3
Accounts receivable, less allowance for doubtful accounts and other of \$34.5 and \$38.9, respectively	1,156.0	1,105.9
Prepaid expenses and other current assets	254.2	247.6
Total current assets	1,492.1	1,436.8
Restricted cash and marketable securities	99.1	141.1
Property and equipment, net	7,913.9	7,777.4
Goodwill	11,382.7	11,315.4
Other intangible assets, net	105.4	141.1
Other assets	408.9	335.2
Total assets	\$ 21,402.1	\$ 21,147.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 661.3	\$ 598.1
Notes payable and current maturities of long-term debt	690.8	706.7
Deferred revenue	336.4	312.1
Accrued landfill and environmental costs, current portion	168.3	135.2
Accrued interest	78.4	74.5
Other accrued liabilities	740.1	808.2
Total current liabilities	2,675.3	2,634.8
Long-term debt, net of current maturities	7,556.7	7,480.7
Accrued landfill and environmental costs, net of current portion	1,673.9	1,686.5
Deferred income taxes and other long-term tax liabilities, net	970.0	796.4
Insurance reserves, net of current portion	275.8	275.4
Other long-term liabilities	326.6	312.1
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 50 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 750 shares authorized; 351.8 and 350.1 issued including shares held in treasury, respectively	3.5	3.5
Additional paid-in capital	4,911.0	4,839.6
Retained earnings	4,571.6	4,152.5
Treasury stock, at cost; 27.2 and 18.4 shares, respectively	(1,620.4)	(1,059.4)
Accumulated other comprehensive income, net of tax	55.9	22.6
Total Republic Services, Inc. stockholders' equity	7,921.6	7,958.8
Noncontrolling interests in consolidated subsidiary	2.2	2.3
Total stockholders' equity	7,923.8	7,961.1
Total liabilities and stockholders' equity	\$ 21,402.1	\$ 21,147.0

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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue	\$2,565.7	\$2,562.0	\$7,510.9	\$7,481.5
Expenses:				
Cost of operations	1,577.4	1,580.1	4,624.4	4,621.6
Depreciation, amortization and depletion	262.4	260.8	781.0	769.0
Accretion	20.1	20.0	60.7	59.9
Selling, general and administrative	260.9	266.7	775.0	783.2
Withdrawal costs - multiemployer pension funds	—	—	—	1.1
Gain on disposition of assets and asset impairments, net	(4.6 )	(17.4 )	(5.3 )	(27.2 )
Restructuring charges	9.2	3.7	22.5	12.2
Operating income	440.3	448.1	1,252.6	1,261.7
Interest expense	(96.0 )	(90.0 )	(287.3 )	(269.0 )
Loss from unconsolidated equity method investment	(5.6 )	(2.2 )	(5.7 )	(8.2 )
Loss on extinguishment of debt	—	—	(0.3 )	—
Interest income	0.5	0.3	1.0	1.0
Other income, net	1.1	0.5	3.3	0.9
Income before income taxes	340.3	356.7	963.6	986.4
Provision for income taxes	77.4	133.4	227.1	371.9
Net income	262.9	223.3	736.5	614.5
Net loss (income) attributable to noncontrolling interests in consolidated subsidiary	0.5	(0.1 )	(0.5 )	(0.5 )
Net income attributable to Republic Services, Inc.	\$263.4	\$223.2	\$736.0	\$614.0
Basic earnings per share attributable to Republic Services, Inc. stockholders:				
Basic earnings per share	\$0.81	\$0.66	\$2.25	\$1.82
Weighted average common shares outstanding	325.5	336.5	327.8	338.2
Diluted earnings per share attributable to Republic Services, Inc. stockholders:				
Diluted earnings per share	\$0.81	\$0.66	\$2.23	\$1.81
Weighted average common and common equivalent shares outstanding	326.9	338.5	329.3	340.1
Cash dividends per common share	\$0.375	\$0.345	\$1.065	\$0.985
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, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net income	\$262.9	\$223.3	\$736.5	\$614.5				
Other comprehensive income, net of tax								
Hedging activity:								
Settlements	1.2	(1.3 )	25.6	(3.6 )				
Realized (gains) losses reclassified into earnings	(1.2 )	1.7	(2.2 )	4.8				
Unrealized gain	3.2	3.9	9.9	—				
Other comprehensive income, net of tax	3.2	4.3	33.3	1.2				
Comprehensive income	266.1	227.6	769.8	615.7				
Comprehensive loss (income) attributable to noncontrolling interests	0.5	(0.1 )	(0.5 )	(0.5 )				
Comprehensive income attributable to Republic Services, Inc.	\$266.6	\$227.5	\$769.3	\$615.2				

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 Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income, Net of Tax	Noncontrolling Interests In Consolidated Subsidiary	Total
	Shares	Amount			Shares	Amount			
Balance as of December 31, 2017	350.1	\$ 3.5	\$ 4,839.6	\$ 4,152.5	(18.4)	\$(1,059.4)	\$ 22.6	\$ 2.3	\$ 7,961.1
Adoption of accounting standard, net of tax	—	—	—	33.4	—	—	—	—	33.4
Net income	—	—	—	736.0	—	—	—	0.5	736.5
Other comprehensive income	—	—	—	—	—	—	33.3	—	33.3
Cash dividends declared	—	—	—	(347.4)	—	—	—	—	(347.4)
Issuances of common stock	1.7	—	39.8	—	(0.3)	(19.9)	—	—	19.9
Stock-based compensation	—	—	31.6	(2.9)	—	—	—	—	28.7
Purchase of common stock for treasury	—	—	—	—	(8.5)	(541.1)	—	—	(541.1)
Distributions paid	—	—	—	—	—	—	—	(0.6)	(0.6)
Balance as of September 30, 2018	351.8	\$ 3.5	\$ 4,911.0	\$ 4,571.6	(27.2)	\$(1,620.4)	\$ 55.9	\$ 2.2	\$ 7,923.8

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,	
	2018	2017
Cash provided by operating activities:		
Net income	\$736.5	\$614.5
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, amortization, depletion and accretion	841.7	828.9
Non-cash interest expense	31.4	32.6
Restructuring related charges	22.5	12.2
Stock-based compensation	29.4	27.3
Deferred tax provision	113.7	60.5
Provision for doubtful accounts, net of adjustments	24.4	22.8
Loss on extinguishment of debt	0.3	—
Gain on disposition of assets and asset impairments, net	(1.7 )	(22.7 )
Withdrawal costs - multiemployer pension funds	—	1.1
Environmental adjustments	3.3	—
Loss from unconsolidated equity method investment	5.7	8.2
Other non-cash items	0.6	(0.8 )
Change in assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	(72.1 )	(149.0 )
Prepaid expenses and other assets	(13.5 )	(0.8 )
Accounts payable	58.6	30.3
Restructuring expenditures	(18.7 )	(14.6 )
Capping, closure and post-closure expenditures	(42.5 )	(44.5 )
Remediation expenditures	(30.2 )	(37.7 )
Other liabilities	26.4	13.8
Proceeds from retirement of certain hedging relationships	31.1	—
Cash provided by operating activities	1,746.9	1,382.1
Cash used in investing activities:		
Purchases of property and equipment	(820.5 )	(769.0 )
Proceeds from sales of property and equipment	7.9	4.2
Cash used in acquisitions and investments, net of cash acquired	(130.5 )	(136.4 )
Cash received from (used in) business divestitures	10.6	(10.6 )
Purchases of restricted marketable securities	(35.4 )	(9.6 )
Sales of restricted marketable securities	36.2	9.2
Other	—	0.6
Cash used in investing activities	(931.7 )	(911.6 )
Cash used in financing activities:		
Proceeds from notes payable and long-term debt, net of fees	3,296.7	3,428.1
Proceeds from issuance of senior notes, net of discount and fees	782.0	—
Payments of notes payable and long-term debt and senior notes	(4,032.6)	(3,238.9)
Issuances of common stock, net	19.9	26.7
Purchases of common stock for treasury	(574.9 )	(353.3 )
Cash dividends paid	(340.0 )	(324.8 )
Distributions paid to noncontrolling interests in consolidated subsidiary	(0.6 )	(0.7 )



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Other	(7.9 )	(5.5 )
Cash used in financing activities	(857.4 )	(468.4 )
(Decrease) increase in cash, cash equivalents, restricted cash and restricted cash equivalents	(42.2 )	2.1
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	179.1	113.0
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	\$ 136.9	\$ 115.1

The accompanying notes are an integral part of these statements.

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Table of Contents**REPUBLIC SERVICES, INC.  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. BASIS OF PRESENTATION**

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

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

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

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

**Management's Estimates and Assumptions**

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

**New Accounting Pronouncements*****Accounting Standards Adopted***

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

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

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)***Revenue Recognition*

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

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

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

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

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

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

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

	For the three months ended September 30, 2018			For the nine months ended September 30, 2018		
	As Reported	Effect of Change	As Computed Excluding the Adoption of ASU 2014-09	As Reported	Effect of Change	As Computed Excluding the Adoption of ASU 2014-09
<b>Income Statement</b>						
Revenue	\$2,565.7	\$85.5	\$2,651.2	\$7,510.9	\$255.2	\$7,766.1
Expenses:						
Cost of operations	\$1,577.4	\$83.9	\$1,661.3	\$4,624.4	\$250.8	\$4,875.2
Depreciation, amortization and depletion	\$262.4	\$1.6	\$264.0	\$781.0	\$4.4	\$785.4
Selling, general and administrative	\$260.9	\$0.1	\$261.0	\$775.0	\$0.5	\$775.5
Operating income	\$440.3	\$(0.1)	\$440.2	\$1,252.6	\$(0.5)	\$1,252.1

*Statement of Cash flows*

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

Effective January 1, 2018 we adopted ASU 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18") using a retrospective approach to each period presented. As a result of our adoption of the standard, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Consequently, we reclassified the \$6.0 million change in restricted cash and restricted cash equivalents from cash used in investing activities for the nine months ended September 30, 2017.

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

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 81.9	\$ 83.3	\$ 63.9	\$ 67.8
Restricted cash and marketable securities	99.1	141.1	96.4	90.5
Less: restricted marketable securities	(44.1)	(45.3)	(45.2)	(45.3)
Cash, cash equivalents, restricted cash and restricted cash equivalents	\$ 136.9	\$ 179.1	\$ 115.1	\$ 113.0

*Business Combinations*

Effective January 1, 2018 we adopted ASU 2017-01, *Business Combinations (Topic 805) - Clarifying the Definition of Business* ("ASU 2017-01"), which assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 provides a screen that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)***Retirement Benefits*

Effective January 1, 2018 we adopted ASU 2017-07, *Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07") using a retrospective approach to each period presented. The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented.

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

*Stock Compensation*

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

***Accounting Standards Issued but not yet Adopted****Leases*

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

As we progress to adopt the standard, we continually monitor clarifying interpretations. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which amends the guidance to add a method of adoption whereby the issuer may elect to recognize a cumulative-effect adjustment at the beginning of the period of adoption. We plan to adopt the standard under this method.

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

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

*Derivatives and Hedging*

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). ASU 2017-12 intends to address concerns through changes to hedge accounting guidance which will accomplish the following: a) Expand hedge accounting for nonfinancial and

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



Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)***Reclassifications of Certain Tax Effects from Accumulated Other Comprehensive Income*

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

*Income Taxes*

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

*Improvements to Nonemployee Share-Based Payment Accounting*

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

*Changes to the Disclosure Requirements for Fair Value Measurement*

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU 2018-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. We are currently assessing the effect this guidance may have on our consolidated financial statements.

*Changes to the Disclosure Requirements for Defined Benefit Plans*

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20) Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). ASU 2018-14 removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement. ASU 2018-14 is effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Early adoption is permitted for all entities. We are currently assessing the effect this guidance may have on our consolidated financial statements.

*Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40) No. 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The amendments

in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post implementation stages are expensed as the activities are performed. ASU 2018-15 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption of the amendments in ASU 2018-15 is permitted, including adoption in any interim period, for all entities. The amendments in ASU 2018-15 should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the effect this guidance may have on our consolidated financial statements.

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****2. BUSINESS ACQUISITIONS, INVESTMENTS AND RESTRUCTURING CHARGES****Acquisitions**

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

	2018	2017
Purchase price:		
Cash used in acquisitions, net of cash acquired	\$ 111.1	\$ 136.0
Contingent consideration	—	5.2
Holdbacks	10.9	7.7
Fair value of operations surrendered	—	70.1
Total	122.0	219.0
Allocated as follows:		
Accounts receivable	1.9	10.6
Landfill airspace	22.2	28.0
Property and equipment	17.5	76.3
Other assets	0.1	0.1
Inventory	0.2	0.7
Accounts payable	(0.3 )	—
Environmental remediation liabilities	—	(0.1 )
Closure and post-closure liabilities	(1.7 )	(5.4 )
Other liabilities	(3.7 )	(6.5 )
Fair value of tangible assets acquired and liabilities assumed	36.2	103.7
Excess purchase price to be allocated	\$ 85.8	\$ 115.3
Excess purchase price allocated as follows:		
Other intangible assets	\$ 14.8	\$ 20.1
Goodwill	71.0	95.2
Total allocated	\$ 85.8	\$ 115.3

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.

**Investments**

In 2018 and 2017, we acquired noncontrolling equity interests in certain limited liability companies that qualified for a federal investment tax credit under Section 48 of the Internal Revenue Code. In exchange for our noncontrolling interests, we made certain capital contributions of \$17.4 million and \$0.4 million, which were recorded to other long-term assets in our September 30, 2018 and 2017 consolidated balance sheets, respectively. During the nine months ended September 30, 2018 and 2017, we also reduced the carrying value of these investments by \$7.9 million and \$8.8 million, respectively, as a result of tax credits allocated to us, cash distributions, and our share of income and loss pursuant to the terms of the limited liability company agreement. For further discussion of the income tax benefits, see Note 8, *Income Taxes*.

**Restructuring Charges**

In January 2016, we realigned our field support functions by combining our three regions into two field groups, consolidating our areas and streamlining select operational support roles at our Phoenix headquarters. Additionally, in the second quarter of 2016, we began the redesign of our back-office functions as well as the consolidation of over

100 customer service locations into three Customer Resource Centers. During the three and nine months ended September 30, 2017, we incurred restructuring charges of \$3.7 million and \$12.2 million, respectively, that consisted of severance and other employee termination benefits, transition costs, relocation benefits, and the closure of offices with lease agreements with non-cancelable terms. The savings realized from these restructuring efforts have been reinvested in our customer-focused programs and initiatives.

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

In January 2018, we eliminated certain positions following the consolidation of select back-office functions, including but not limited to the integration of our National Accounts support functions into our existing corporate support functions. These changes include a reduction in administrative staffing and closing of certain office locations. During the three and nine months ended September 30, 2018, we incurred restructuring charges of \$9.2 million and \$22.5 million, respectively, that primarily consisted of severance and other employee termination benefits and the closure of offices with lease agreements with non-cancelable terms. We paid \$6.1 million and \$18.7 million during the three and nine months ended September 30, 2018, respectively, related to these restructuring efforts.

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

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

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

**Goodwill**

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

	Balance as of December 31, 2017	Acquisitions	Divestitures	Adjustments and Other	Balance as of September 30, 2018
Group 1	\$6,084.0	\$ 53.0	\$ (0.3 )	\$ (0.1 )	\$6,136.6
Group 2	5,231.4	18.0	(4.1 )	0.8	5,246.1
Total	\$11,315.4	\$ 71.0	\$ (4.4 )	\$ 0.7	\$11,382.7

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

**Other Intangible Assets, Net**

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

	Gross Intangible Assets			Accumulated Amortization			Other Intangible Assets, Net as of September 30, 2018		
	Balance as of December 31, 2017	Acquisitions	Adjustments and Other (1)	Balance as of September 30, 2018	Balance as of December 31, 2017	Additions Charged to Expense		Adjustments and Other (1)	
Customer relationships, franchise and other municipal agreements	\$ 666.0	\$ 14.0	\$ —	\$ 680.0	\$(554.7 )	\$(42.1 )	\$ —	\$(596.8 )	\$ 83.2
Non-compete agreements	35.6	1.4	(0.1 )	36.9	(28.5 )	(2.3 )	0.1	(30.7 )	6.2
Other intangible assets	73.8	—	(9.5 )	64.3	(51.1 )	(1.0 )	3.8	(48.3 )	16.0
Total	\$ 775.4	\$ 15.4	\$ (9.6 )	\$ 781.2	\$(634.3 )	\$(45.4 )	\$ 3.9	\$(675.8 )	\$ 105.4

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****4. OTHER ASSETS****Prepaid Expenses and Other Current Assets**

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

	2018	2017
Prepaid expenses	\$104.2	\$78.6
Inventories	55.4	51.2
Other non-trade receivables	47.3	28.6
Reinsurance receivable	25.9	23.1
Income tax receivable	17.3	59.7
Commodity and fuel hedge assets	2.0	3.0
Other current assets	2.1	3.4
Total	\$254.2	\$247.6

**Other Assets**

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

	2018	2017
Deferred compensation plan	\$105.1	\$99.9
Deferred contract costs and sales commissions	90.4	43.6
Reinsurance receivable	70.0	65.9
Investments	38.9	27.2
Amounts recoverable for capping, closure and post-closure obligations	30.4	29.9
Interest rate swaps and locks	29.6	27.1
Deferred financing costs	4.5	3.0
Other	40.0	38.6
Total	\$408.9	\$335.2

**5. OTHER LIABILITIES****Other Accrued Liabilities**

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

	2018	2017
Accrued payroll and benefits	\$183.5	\$212.2
Insurance reserves, current portion	152.1	144.8
Accrued fees and taxes	139.3	129.7
Accrued dividends	121.7	114.4
Accrued professional fees and legal settlement reserves	28.1	45.1
Ceded insurance reserves, current portion	25.9	23.1
Current tax liabilities	0.2	11.7
Commodity and fuel hedge liabilities	—	0.3
Other	89.3	126.9
Total	\$740.1	\$808.2

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****Other Long-Term Liabilities**

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

	2018	2017
Deferred compensation plan	\$106.3	\$97.9
Contingent consideration and acquisition holdbacks	70.0	71.3
Ceded insurance reserves	70.0	65.9
Withdrawal liability - multiemployer pension funds	12.3	12.6
Pension and other post-retirement liabilities	7.3	7.0
Interest rate swaps	3.5	—
Other	57.2	57.4
Total	\$326.6	\$312.1

**Insurance Reserves**

Our liabilities for unpaid and incurred but not reported claims as of September 30, 2018 and December 31, 2017 (which include claims for workers' compensation, commercial general and auto liability, and employee-related health care benefits) were \$427.9 million and \$420.2 million, respectively, under our risk management program and are included in other accrued liabilities and insurance reserves, net of current portion, in our consolidated balance sheets. While the ultimate amount of claims incurred depends on future developments, we believe the recorded reserves are adequate to cover the future payment of claims; however, it is possible that these recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in our consolidated statements of income in the periods in which such adjustments are known.

**6. LANDFILL AND ENVIRONMENTAL COSTS**

As of September 30, 2018, we owned or operated 191 active landfills with total available disposal capacity of approximately 5.1 billion in-place cubic yards. We also have post-closure responsibility for 128 closed landfills.

**Accrued Landfill and Environmental Costs**

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

	2018	2017
Landfill final capping, closure and post-closure liabilities	\$1,289.9	\$1,257.7
Environmental remediation liabilities	552.3	564.0
Total accrued landfill and environmental costs	1,842.2	1,821.7
Less: current portion	(168.3 )	(135.2 )
Long-term portion	\$1,673.9	\$1,686.5

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****Final Capping, Closure and Post-Closure Costs**

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

	2018	2017
Asset retirement obligation liabilities, beginning of year	\$1,257.7	\$1,224.6
Non-cash additions	33.0	34.1
Acquisitions, net of divestitures and other adjustments	(0.6 )	(19.6 )
Asset retirement obligation adjustments	(18.4 )	(2.1 )
Payments	(42.5 )	(44.5 )
Accretion expense	60.7	59.9
Asset retirement obligation liabilities, end of period	1,289.9	1,252.4
Less: current portion	(94.2 )	(84.5 )
Long-term portion	\$1,195.7	\$1,167.9

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

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure liabilities was \$29.2 million and \$28.6 million as of September 30, 2018 and December 31, 2017, respectively, and is included in restricted cash and marketable securities in our consolidated balance sheets.

**Landfill Operating Expenses**

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

**Environmental Remediation Liabilities**

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



Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

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

	2018	2017
Environmental remediation liabilities, beginning of year	\$564.0	\$602.9
Net additions charged to expense	3.3	—
Payments	(30.2 )	(37.7 )
Accretion expense (non-cash interest expense)	15.2	15.7
Acquisitions, net of divestitures and other adjustments	—	(6.1 )
Environmental remediation liabilities, end of period	552.3	574.8
Less: current portion	(74.1 )	(73.2 )
Long-term portion	\$478.2	\$501.6

*Bridgeton Landfill.* During the nine months ended September 30, 2018, we paid \$11.0 million related to management and monitoring of the remediation area for our closed Bridgeton Landfill in Missouri. We continue to work with state and federal regulatory agencies on our remediation efforts. From time to time, this may require us to modify our future operating timeline and procedures, which could result in changes to our expected remediation liability. As of September 30, 2018, the remediation liability recorded for this site was \$166.3 million, of which approximately \$9 million is expected to be paid during the remainder of 2018. We believe the remaining reasonably possible high end of our range would be approximately \$177 million higher than the amount recorded as of September 30, 2018.

*West Lake Landfill Superfund Site.* Our subsidiary Bridgeton Landfill, LLC is one of several currently designated Potentially Responsible Parties for the West Lake Landfill Superfund site ("West Lake") in Missouri. On September 27, 2018, the U.S. Environmental Protection Agency ("EPA") issued a Record of Decision Amendment for West Lake that includes a total cost estimate of \$205 million over a four to five-year design and construction timeline. At this time we are neither able to predict the final design of that remedy, nor estimate how much of the future response costs of the site our subsidiary may agree or be required to pay. During any subsequent administrative proceedings or litigation, our subsidiary will vigorously contest liability for the costs of remediating radiologically-impacted materials generated on behalf of the federal government during the Manhattan Project and delivered to the site by an Atomic Energy Commission licensee and its subcontractor. Currently, we believe we are adequately reserved for our expected remediation liability. However, subsequent events related to remedy design, divisibility, or allocation may require us to modify our expected remediation liability.

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****7. DEBT**

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

Maturity	Interest Rate	September 30, 2018			December 31, 2017		
		Principal	Adjustments	Carrying Value	Principal	Adjustments	Carrying Value
<b>Credit facilities:</b>							
Uncommitted Credit Facility	Variable	\$ 56.6	\$ —	\$ 56.6	\$—	\$ —	\$—
June 2019	Variable	—	—	—	130.0	—	130.0
May 2021	Variable	—	—	—	—	—	—
June 2023	Variable	50.0	—	50.0	—	—	—
<b>Senior notes:</b>							
May 2018	3.800	—	—	—	700.0	(0.3 )	699.7
September 2019	5.500	650.0	(1.2 )	648.8	650.0	(2.1 )	647.9
March 2020	5.000	850.0	(1.2 )	848.8	850.0	(1.8 )	848.2
November 2021	5.250	600.0	(1.3 )	598.7	600.0	(1.5 )	598.5
June 2022	3.550	850.0	(3.9 )	846.1	850.0	(4.6 )	845.4
May 2023	4.750	550.0	(11.7 )	538.3	550.0	(1.0 )	549.0
March 2025	3.200	500.0	(4.4 )	495.6	500.0	(4.8 )	495.2
June 2026	2.900	500.0	(4.5 )	495.5	500.0	(5.0 )	495.0
November 2027	3.375	650.0	(6.2 )	643.8	650.0	(7.0 )	643.0
May 2028	3.950	800.0	(17.6 )	782.4	—	—	—
March 2035	6.086	181.9	(14.6 )	167.3	181.9	(14.9 )	167.0
March 2040	6.200	399.9	(3.8 )	396.1	399.9	(3.9 )	396.0
May 2041	5.700	385.7	(5.4 )	380.3	385.7	(5.5 )	380.2
<b>Debentures:</b>							
May 2021	9.250	35.3	(0.7 )	34.6	35.3	(1.0 )	34.3
September 2035	7.400	148.1	(34.0 )	114.1	148.1	(34.5 )	113.6
<b>Tax-exempt:</b>							
2019 - 2044	1.400 - 2.250	1,042.4	(5.7 )	1,036.7	1,042.4	(6.4 )	1,036.0
<b>Capital leases:</b>							
2018 - 2046	3.273 - 12.203	113.8	—	113.8	108.4	—	108.4
<b>Total Debt</b>		\$ 8,363.7	\$ (116.2 )	8,247.5	\$ 8,281.7	\$ (94.3 )	8,187.4
Less: current portion				(690.8 )	(706.7 )		
Long-term portion				\$ 7,556.7	\$ 7,480.7		

**Credit Facilities**

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

lenders. At our option, borrowings under the Credit Facility bear interest at a Base Rate, or a Eurodollar Rate, plus an applicable margin based on our Debt Ratings (all as defined in the Credit Facility agreement).

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

The Credit Facility is subject to facility fees based on applicable rates defined in the Credit Facility agreement and the aggregate commitment, regardless of usage. Availability under our Credit Facility totaled \$1,771.5 million as of September 30, 2018 and under the Replaced Credit Facilities totaled \$1,639.1 million as of December 31, 2017. The Credit Facility can be used for working capital, capital expenditures, acquisitions, letters of credit and other general corporate purposes. The Credit Facility agreement requires us to comply with financial and other covenants. We may pay dividends and repurchase common stock if we are in compliance with these covenants. As of September 30, 2018, we had \$50.0 million of borrowings under our Credit Facility and \$130.0 million of borrowings under the Replaced Credit Facilities as of December 31, 2017. We had \$411.2 million of letters of credit outstanding under our Credit Facility as of September 30, 2018 and \$462.7 million of letters of credit outstanding under our Replaced Credit Facilities as of December 31, 2017.

Our Uncommitted Credit Facility bears interest at LIBOR, plus an applicable margin and is subject to facility fees defined in the agreement, regardless of usage. We can use borrowings under the Uncommitted Credit Facility for working capital and other general corporate purposes. The agreement governing our Uncommitted Credit Facility requires us to comply with certain covenants. The Uncommitted Credit Facility may be terminated by either party at any time. We had \$56.6 million of borrowings and no borrowings outstanding under our Uncommitted Credit Facility as of September 30, 2018 and December 31, 2017, respectively.

**Senior Notes and Debentures**

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

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

**Tax-Exempt Financings**

As of both September 30, 2018 and December 31, 2017, we had \$1,042.4 million of fixed and variable rate tax-exempt financings outstanding with maturities ranging from 2019 to 2044. Approximately 100% of our tax-exempt financings are remarketed quarterly by remarketing agents to effectively maintain a variable yield. The holders of the bonds can put them back to the remarketing agents at the end of each interest period. To date, the remarketing agents have been able to remarket our variable rate unsecured tax-exempt bonds. These bonds have been classified as long-term because of our ability and intent to refinance them using availability under our Credit Facility, if necessary.

**Capital Leases**

We had capital lease liabilities of \$113.8 million and \$108.4 million as of September 30, 2018 and December 31, 2017, respectively, with maturities ranging from 2018 to 2046.

**Interest Rate Swap and Lock Agreements**

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

**Fair Value Hedges**

During the second half of 2013, we entered into various interest rate swap agreements relative to our 4.750% fixed rate senior notes due in May 2023. The goal was to reduce overall borrowing costs and rebalance our debt portfolio's

ratio of fixed to floating interest rates. As of September 30, 2018, these swap agreements had a total notional value of \$300.0 million and mature in May 2023, which is identical to the maturity of the hedged senior notes. We pay interest at floating rates based on changes in LIBOR and receive interest at a fixed rate of 4.750%. These transactions were designated as fair value hedges because the swaps hedge against the changes in fair value of the fixed rate senior notes resulting from changes in interest rates.

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As of September 30, 2018 and December 31, 2017, the interest rate swap agreements are reflected at their fair value of \$(3.5) million and \$8.0 million, respectively, and are included in other long-term liabilities and other assets. To the extent they are effective, these interest rate swap agreements are included as an adjustment to long-term debt in our consolidated balance sheets. We recognized net interest income of \$0.3 million and \$1.7 million during the three and nine months ended September 30, 2018, respectively, and \$1.1 million and \$3.8 million during the three and nine months ended September 30, 2017, respectively, related to net swap settlements for these interest rate swap agreements, which is included as an offset to interest expense in our unaudited consolidated statements of income. For the three months ended September 30, 2018 and 2017, we recognized gains of \$1.9 million and \$1.0 million, respectively, on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate, and losses of \$2.0 million and \$0.8 million, respectively, on the related interest rate swaps. For the nine months ended September 30, 2018 and 2017, we recognized gains of \$11.1 million and \$1.3 million, respectively, on the change in fair value of the hedged senior notes attributable to changes in the benchmark interest rate, and losses of \$11.5 million and \$0.6 million, respectively, on the related interest rate swaps. The net amount of these fair value changes represents hedge ineffectiveness, which is recorded directly in earnings as other income, net.

***Cash Flow Hedges***

Our interest rate lock agreements had an aggregate notional amount of \$450.0 million as of September 30, 2018 with fixed interest rates ranging from 1.900% to 2.950%. Upon the expected issuance of senior notes, we will terminate the interest rate locks and settle with our counterparties. These transactions were accounted for as cash flow hedges. The fair value of our interest rate locks as of September 30, 2018 was determined using standard valuation models with assumptions about interest rates being based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregate fair values of the outstanding interest rate locks as of September 30, 2018 and December 31, 2017 were \$29.6 million and \$19.1 million, respectively, and were recorded in other long term assets in our consolidated balance sheet. No amounts were recognized in other income, net in our consolidated statements of income for the ineffective portion of the changes of fair values during the three and nine months ended September 30, 2018 and 2017, respectively.

Total gain recognized in other comprehensive income, net of tax, was \$4.2 million and \$0.7 million for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018, the total gain recognized in other comprehensive income, net of tax, was \$10.2 million and for the nine months ended September 30, 2017, total loss recognized in other comprehensive income, net of tax was \$1.9 million.

As of September 30, 2018 and December 31, 2017, the effective portion of our previously terminated interest rate locks, recorded as a component of accumulated other comprehensive income, net of tax, was income of \$11.5 million and loss of \$11.8 million, respectively. The effective portion of the interest rate locks is amortized as an adjustment to interest expense over the life of the issued debt using the effective interest method. We expect to amortize approximately \$0.7 million of net interest income over the next twelve months as a yield adjustment of our senior notes.

The effective portion of the interest rate locks amortized as a net increase to interest expense was zero and \$0.7 million during the three months ended September 30, 2018 and 2017, respectively and \$0.8 million and \$2.0 million during the nine months ended September 30, 2018 and 2017, respectively.

**8. INCOME TAXES**

Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2018 was 22.7% and 23.6%, respectively. Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2017, was 37.4% and 37.7%, respectively. Our effective tax rate, exclusive of noncontrolling interests, for the three and nine months ended September 30, 2018 was favorably affected by the Tax Act, investments in solar energy assets qualifying for tax credits under Section 48 of the Internal Revenue Code and the realization of additional federal and state benefits as well as adjustments to deferred taxes due to the substantial completion of our 2017 tax returns.

Cash paid for income taxes (net of refunds) was \$43.5 million and \$270.5 million for the nine months ended September 30, 2018 and 2017, respectively. Cash paid for income taxes (net of refunds) for the nine months ended September 30, 2018 was favorably affected by the Tax Act and our investments in solar energy assets.

The Tax Act was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, limits deductions for, among other things, interest expense, executive compensation and meals and entertainment, while enhancing deductions for equipment and other fixed assets. The Tax Act also requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

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**REPUBLIC SERVICES, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

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

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

During the three months ended September 30, 2018, we adjusted the provisional amounts recorded as of December 31, 2017 for the one-time transition tax, deferred taxes and uncertain tax positions. These adjustments resulted in a net charge to the tax provision of \$0.3 million.

As of September 30, 2018, we have not finalized our accounting for the tax effects of the enactment of the Tax Act. In accordance with SAB 118, we will finalize all accounting related to the Tax Act in the period ended December 31, 2018. We do not anticipate further adjustments will have a material impact on our tax provision.

We are subject to income tax in the United States and Puerto Rico, as well as in multiple state jurisdictions. Our compliance with income tax rules and regulations is periodically audited by taxing authorities. These authorities may challenge the positions taken in our tax filings. We are currently under examination or administrative review by state and local taxing authorities and Puerto Rico for various tax years. We believe that our recorded liabilities for uncertain tax positions are adequate. However, a significant assessment against us in excess of the liabilities recorded could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

We recognize interest and penalties as incurred within the provision for income taxes in the consolidated statements of income. As of September 30, 2018, we accrued a liability for penalties of \$0.5 million and a liability for interest (including interest on penalties) of \$11.7 million related to our uncertain tax positions.

For the three months ended September 30, 2018, we accrued additional uncertain tax liabilities of \$30.5 million resulting from the filing of our 2017 tax returns and prior year amended tax returns. For the three months ending December 31, 2018, we anticipate filing additional amended tax returns reflecting a similar uncertain tax position. As a result, we estimate our reserve for uncertain tax positions will increase by approximately \$20 million to \$40 million once these returns are completed, however, we are unable to estimate the resolution of these matters over the next twelve months.

The additional liabilities for uncertain tax positions described previously will have no impact on our effective tax rate except for the possible future accrual of interest on a portion of the recorded liability. Any such future interest accruals will not significantly affect our provision for income taxes.

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.

As a result of changes in U.S. tax law and our ongoing efforts to evaluate, streamline and maximize the efficiency of our tax footprint, we could adjust our valuation allowance in a future period if there is sufficient evidence to support a conclusion that it is more certain than not that a portion of the state net operating loss carryforwards, on which we currently provide a valuation allowance, would be realized. Future changes in our valuation allowance could have a material effect on our results of operations in the period recorded.

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. The weight given to the positive and negative evidence is commensurate with the extent such evidence can be objectively verified. We continue to regularly monitor both positive and negative evidence in determining the ongoing need for a valuation allowance. As of September 30, 2018, the valuation allowance associated with our state loss carryforwards was approximately \$78 million.

**9. STOCK REPURCHASES, DIVIDENDS AND EARNINGS PER SHARE**



**Available Shares**

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)****Stock Repurchases**

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Number of shares repurchased	1.4	1.9	8.5	5.6
Amount paid	\$100.9	\$122.7	\$574.9	\$353.3
Weighted average cost per share	\$71.83	\$64.78	\$67.84	\$62.81

As of September 30, 2018, there were no repurchased shares pending settlement. As of September 30, 2017, 0.1 million repurchased shares were pending settlement, resulting in an associated \$3.3 million of share repurchases unpaid and included within other accrued liabilities.

In October 2017, our board of directors added \$2.0 billion to our existing share repurchase authorization that now extends through December 31, 2020. Share repurchases under the program may be made through open market purchases or privately negotiated transactions in accordance with applicable federal securities laws. While the board of directors approved the share purchase program, the timing of any purchases, the prices and the number of shares of common stock to be purchased will be determined by our management, and will depend upon market conditions and other factors. The program may be extended, suspended or discontinued at any time. As of September 30, 2018, the remaining authorized purchase capacity under our October 2017 repurchase program was \$1.3 billion.

**Dividends**

In July 2018, our board of directors approved a quarterly dividend of \$0.375 per share. Cash dividends declared were \$347.4 million for the nine months ended September 30, 2018. As of September 30, 2018, we recorded a quarterly dividend payable of \$121.7 million to shareholders of record at the close of business on October 1, 2018.

**Earnings per Share**

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic earnings per share:				
Net income attributable to Republic Services, Inc.	\$263,400	\$223,200	\$736,000	\$614,000
Weighted average common shares outstanding	325,483	336,549	327,830	338,158
Basic earnings per share	\$0.81	\$0.66	\$2.25	\$1.82
Diluted earnings per share:				
Net income attributable to Republic Services, Inc.	\$263,400	\$223,200	\$736,000	\$614,000
Weighted average common shares outstanding	325,483	336,549	327,830	338,158
Effect of dilutive securities:				
Options to purchase common stock	673	1,200	799	1,295
Unvested RSU awards	263	355	241	347
Unvested PSU awards	525	370	456	312
Weighted average common and common equivalent shares outstanding	326,944	338,474	329,326	340,112
Diluted earnings per share	\$0.81	\$0.66	\$2.23	\$1.81

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

**10. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT**

A summary of changes in accumulated other comprehensive income, net of tax, by component, for the nine months ended September 30, 2018 follows:

	Cash Flow Hedges	Defined Benefit Pension Items	Total
Accumulated other comprehensive income as of December 31, 2017	\$ 1.4	\$ 21.2	\$22.6
Other comprehensive income before reclassifications	35.5	—	35.5
Amounts reclassified from accumulated other comprehensive income	(2.2 )	—	(2.2 )
Net current period other comprehensive income	33.3	—	33.3
Accumulated other comprehensive income as of September 30, 2018	\$ 34.7	\$ 21.2	\$55.9

A summary of reclassifications out of accumulated other comprehensive income for the three and nine months ended September 30, 2018 and 2017 follows:

Details about Accumulated Other Comprehensive Income Components	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Statement where Net Income is Presented
	2018	2017	2018	2017	
Gain (loss) on cash flow hedges:					
Recyclable commodity hedges	\$0.4	\$(1.3 )	\$0.7	\$(2.8 )	Revenue

Fuel hedges	1.2	(0.8 )	3.1	(3.1 )	Cost of operations
Terminated interest rate locks	—	(0.7 )	(0.8 )	(2.0 )	Interest expense
Total before tax	1.6	(2.8 )	3.0	(7.9 )	
Tax (expense) benefit	(0.4 )	1.1	(0.8 )	3.1	
Total gains (losses) reclassified, net of tax	\$ 1.2	\$ (1.7 )	\$ 2.2	\$ (4.8 )	

## 11. 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, 2018:

Year	Gallons Hedged	Weighted Average Contract Price per Gallon
2018	1,875,000	\$2.59

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

The fair values of our fuel hedges are determined using standard option valuation models with assumptions about commodity prices based on those observed in underlying markets (Level 2 in the fair value hierarchy). The aggregate fair values of our outstanding fuel hedges as of September 30, 2018 were current assets of \$1.6 million, which have been recorded in other current assets in our consolidated balance sheets. As of December 31, 2017, the aggregate fair values of our outstanding fuel hedges were current assets of \$3.0 million, which are included in other current assets in our consolidated balance sheets. No amounts were recognized in other income, net in our unaudited consolidated statements of income for the ineffectiveness portion of the changes in fair values for each of the three or nine months ended September 30, 2018 and 2017.

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

For the three and nine months ended September 30, 2018, a loss of \$0.7 million was recognized in other comprehensive income, net of tax, for fuel hedges (the effective portion), and \$2.1 million was recognized in other comprehensive income, net of tax, for fuel hedges (the effective portion) for the three and nine months ended September 30, 2017. We classify cash inflows and outflows from our fuel hedges within operating activities in the unaudited consolidated statements of cash flows.

**Recyclable Commodity Hedges**

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

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

As of September 30, 2018, we had outstanding costless collar hedges for OCC totaling 30,000 tons with a weighted average floor strike price of \$81.50 per ton and a weighted average cap strike price of \$120.00 per ton, all of which will be settled in 2018. Costless collar hedges are recorded in our consolidated balance sheets at fair value. Fair values of costless collars are determined using standard option valuation models with assumptions about commodity prices based upon forward commodity price curves in underlying markets (Level 2 in the fair value hierarchy).

The aggregate fair values of the outstanding recyclable commodity hedges as of September 30, 2018 were current assets of \$0.4 million, which are included in prepaid expenses and other current assets in our consolidated balance sheets. As of December 31, 2017, the aggregate fair values of the outstanding recyclable commodity hedges were current liabilities of \$0.2 million, which are included in other accrued liabilities in our consolidated balance sheets. No amounts were recognized in other income, net in our unaudited consolidated statements of income for the ineffectiveness portion of the changes in fair values during the three and nine months ended September 30, 2018 and 2017.

Total gains (losses) recognized in other comprehensive income for recyclable commodity hedges (the effective portion) was \$(0.3) million and \$0.4 million, net of tax, for the three and nine months ended September 30, 2018, respectively, and \$1.1 million and \$(0.2) million, net of tax, for the same periods in 2017, respectively.

**Fair Value Measurements**

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

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

Table of Contents**REPUBLIC SERVICES, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)**

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

	Carrying Amount	Fair Value Measurements Using			
		Total as of September 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Money market mutual funds	\$ 34.5	\$ 34.5	\$ 34.5	\$ —	\$ —
Bonds - restricted cash and marketable securities and other assets	48.6	48.6	—	48.6	—
Fuel hedges - other current assets	1.6	1.6	—	1.6	—
Commodity hedges - other current assets	0.4				