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**FORM 10-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

For the fiscal year ended December 31, 1995

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10727

**Mid-American Waste Systems, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

31-1161917

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

1006 Walnut Street, Canal Winchester, Ohio

(Address of principal executive offices)

43110

(Zip Code)

Registrant's telephone number, including area code (614) 833-9155

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

Title of each class

Common Stock, \$1.00 Par Value

Name of each exchange on  
which registered

New York Stock Exchange

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

None

(Title of class)

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 ☐

Approximate aggregate market value of common stock held by non-affiliates of the registrant: \$46,600,000, computed on the basis of \$1.75 per share, closing price of the common stock on the New York Stock Exchange on April 12, 1996.

There were 27,984,950 shares of the registrant's Common Stock, \$1.00 par value, outstanding as of March 15, 1996.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the 1996 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, pursuant to Regulation 14A, are incorporated by reference into Items 10, 11, 12 and 13 of Part III of this annual report.

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

## **PART I**

### **ITEM 1. BUSINESS**

Mid-American Waste Systems, Inc. (the "Company") is an integrated solid waste management company that provides solid nonhazardous waste collection, transfer, recycling and disposal services to approximately 328,000 residential, commercial and industrial customers in eight selected metropolitan markets in eight states. Since it was founded in 1985, the Company has achieved a major presence in each of the markets it serves, through the development and acquisition of landfills, independent collection operations and transfer stations. In 1995, the Company had total revenues of \$156.9 million.

#### **Solid Waste Industry Demand Factors**

In the United States, landfilling is at present the most common means of disposing of municipal solid waste, which consists primarily of refuse and garbage from households and commercial establishments. More comprehensive federal, state and local regulation of the operation of landfills and the collection of solid waste, coupled with increased public concern over the environment, has contributed to the reduction in available disposal capacity, the consolidation of smaller operations and the privatization of municipal services. These trends have been a contributing factor to the Company's past expansion activities. In the foreseeable future, the Company does not expect to continue to grow, expand and increase market share through the acquisition of other companies and assets. Instead, the Company will focus on internal growth of its current operations by implementing a more aggressive marketing program to increase residential subscriptions, competitively bidding on municipal, and industrial contracts, and increasing volumes of third-party waste deposited in Company-owned or -operated landfills.

Proposed and existing federal, state and local regulations impose a number of requirements on landfill operators designed to protect the environment. The most notable of these regulatory schemes is Subtitle D of the Federal Resource Conservation and Recovery Act of 1976 (the "Subtitle D Regulations") promulgated by the United States Environmental Protection Agency (the "EPA"). See — Environmental Regulations. The most recent amendments to the "Criteria for Municipal Solid Waste Landfills" became effective in December 1993 and contain specific phase-in dates of applicability determined on a facility-specific basis. Regulatory requirements include siting restrictions and the required installation of synthetic liners, methane gas recovery systems, leachate collection and treatment systems, groundwater monitoring wells and buffer areas. The regulations also impose extensive financial assurance requirements on landfill operators as well as significant closure and post-closure monitoring requirements. In addition to greater capital requirements, these regulations mandate a number of procedures that have made more stringent the operating standards for landfill management. Landfill operators are now required to measure, review and record incoming waste more carefully, to maintain daily cover standards, to operate more safely and to limit public access to their facilities. These environmental regulations have led to increased capital requirements in the industry which has made it more difficult for many companies to maintain or expand existing landfills. All of the Company's existing landfills are in substantial compliance with the provisions of Subtitle D.

The increased level of regulation has also led to higher demand for alternatives to landfilling as a way of reducing the volume of waste to be deposited in landfills. Most states have enacted legislation requiring local jurisdictions to adopt waste reduction programs. In response, the Company provides waste reduction services, such as recycling and composting, in selected markets.

#### **Strategy**

The Company's operating strategy is to own fully integrated solid waste management operations in each of its markets in order that waste streams from collection and transfer operations can be directed towards Company-owned or operated landfills, each of which is in substantial compliance with applicable environmental regulations. Utilization of the Company's landfills is maximized through the Company's own collection and transfer operations which the Company has previously grown through acquisitions of independent collection operations and other acquisitions of customer lists, routes and equipment in markets already served by the

Company, referred to herein as "tuck-in" acquisitions. The key elements of the Company's operating strategy include:

*Vertical Integration.* The Company seeks to maximize its profitability by clustering its collection operations around a Company-owned or -operated landfill, thereby eliminating the disposal costs previously paid to third parties. Further, the Company is less subject to tipping fee pricing pressure due to the captive waste stream provided by its collection operations. As such, the Company has divested certain operations which it determined could not be vertically integrated, such as the sludge management business and certain collection operations. As a result, in 1995, 95% of the Company's collection volume was disposed of in Company landfills. The Company expects that during 1996, the internal disposal integration rate will decrease due to the temporary closing of the Company's Cuyahoga Regional Sanitary Landfill located near Cleveland, Ohio for new cell construction. Therefore, the Company anticipates that it will incur higher third-party disposal charges at its Cleveland collection operations, thus increasing operating expenses during 1996.

*Market Concentration.* Historically, the Company has focused its operations in those markets where it had sufficient permitted landfill capacity and could acquire or develop transfer stations and collection operations which would provide the Company with significant market share. The future acquisition and development of transfer stations and collection operations will be limited by the Company's financial condition and by the provisions of its bank credit agreement and Senior Notes agreements which limit the Company's capital expenditures and its ability to acquire other business operations and the Company's limited ability to obtain alternative financing such as the issuance of debt or equity securities.

*Regulatory Compliance.* The Company has committed substantial resources to design and construct each of its new landfills and its expansions of existing landfills to substantially meet or exceed all applicable environmental regulations, including the new Subtitle D Regulations. The Company believes that the increased capital commitment necessary to comply with these regulations will cause many smaller independent landfill operators (including some municipalities) to either raise prices to fund the capital requirements or eventually cease operations and thus decrease overall available landfill capacity.

In 1996, the Company sold its Atlanta, Georgia operations for approximately \$52 million, in order to raise capital for the repayment of debt and for operating capital requirements.

The Company's viability as a going concern is dependent upon the restructuring of its obligations and asset base, and ultimately, a return to profitability. In addition, as more fully described in Note 8, the Company is a party to certain criminal charges in connection with its Gary landfill and an SEC inquiry. The Company recorded a net loss of \$182,558,000 for 1995, had negative working capital of \$274,171,000 at December 31, 1995 and was in default on certain debt agreements which are classified as current liabilities in the accompanying balance sheet. If present trends continue and the Company is unable to obtain relief or otherwise cure the events of default, the Company may be required to seek protection under federal bankruptcy laws.

The Company is currently in default under its principal debt instruments. The Company has defaulted on several financial and other covenants under its bank credit agreement and senior notes. The Company has failed to pay the last installment of interest due on its Senior Subordinated Notes. Other defaults may exist under its other debt instruments. As a result, the holders of such debt instruments have the right to accelerate the maturity of their debt instruments or to take other remedies. No assurance can be given that the lenders will not accelerate their debt instruments at any time. If such debt instruments were accelerated, the Company does not currently have sufficient cash or other resources to repay such debt.

#### **Waste Collection Services**

The Company provides solid waste collection, transportation and disposal services to approximately 278,000 residential and 50,000 commercial and industrial customers in the metropolitan markets of Columbus, western Pennsylvania, Cleveland, northeast Atlanta, Parkersburg/Clarksburg, Fort Wayne, Evansville and Lee County, South Carolina. Collection services generated revenues of \$107.6 million in 1995, representing 68.6% of the Company's total revenues for 1995. The Company entered into an agreement on

March 26, 1996 to sell its Atlanta, Georgia operations for approximately \$52.0 million. In 1995, collection operations in the Atlanta market represented \$23.2 million, or 21.6% of the Company's collection services revenues. The Company sold its Atlanta market operations in 1996.

The Company has committed significant resources to develop automated reporting systems that include a bar code-based billing system, detailed revenue reporting and efficient route management, all of which are integrated with the corporate financial reporting system. The Company has also developed sophisticated training and safety programs to maximize labor productivity and improve operating efficiencies.

The Company's collection operations primarily serve metropolitan markets. In the past, the Company's collection operations have grown primarily through the acquisition and integration of local collection companies. To preserve the established local presence, the Company generally continues to operate under the acquired business name. Through marketing of the local name, enhanced service and price increases, the Company has been able to expand the revenue base of the acquired operation. In the foreseeable future, the Company does not expect to continue growth of its collection operations through acquisitions. Instead, the Company will focus on internal growth of its current collection operations by implementing a more aggressive marketing program to increase residential subscriptions and competitively bidding on municipal, commercial and industrial contracts.

The Company's local general managers are given autonomy, within corporate policy guidelines, to encourage development of the local operations. The Company's centralized management information systems provide the local general manager more time to devote to marketing and operating responsibilities. These managers are responsible for marketing the local services, supervising the local sales force, maintaining equipment in accordance with planned maintenance schedules, hiring and training the hourly labor force and implementing the Company's safety programs and operating procedures.

*Residential Services.* The Company's residential collection services represented 31.8% of collection services revenues for 1995. Revenues from the Company's Atlanta market contributed 26.7% of the Company's residential collection services revenues during 1995. Residential collection services are typically provided either on a subscription basis, where the individual household contracts directly with the Company, or on a municipal contract basis, where the Company contracts with the municipality to collect from all residences within a specified area. Management believes subscription residential service operations require the least amount of additional capital investment even though more management and administrative resources are required. These administrative costs include the daily production of route sheets, the direct billing of customers and the maintenance of bad debt collection and tracking systems.

A large subscription residential base also allows the Company to absorb the costs associated with the commencement or loss of a municipal residential collection contract in a market where the Company has a subscription customer base. Municipal contracts provide consistent cash flow during the contract period and require less administration because individual billing and debt collection systems are not necessary and because all residents within the area are served. However, due to the competitive bidding process, the Company bids on municipal residential contracts only near areas it already serves. The Company is currently a party to 110 municipal contracts, ranging from \$1,000 to \$222,000 of collection services revenues per month. Total municipal contract revenues were \$17.2 million in 1995, or 14.4% of collection services revenues for 1995. These contracts are typically competitively bid and have initial terms of one to ten years, with optional renewal terms of up to five years.

*Commercial and Industrial Services.* The Company's commercial and industrial collection services revenues represented 56.6% of collection services revenues for 1995. In 1995, collection operations in the Atlanta market represented 16.2% of the Company's commercial and industrial collection services revenues. The Company sold its Atlanta market operations in 1996. Collection services are provided to commercial customers who can be serviced through the Company's existing residential route systems. All of the Company's commercial customers utilize containers ranging in size from one to ten cubic yards, which are provided to the customer by the Company as part of its service contract. Commercial collection enables the Company to increase revenues and improve equipment utilization within an existing market area. Commercial services are typically provided under contracts with terms of one to three years. These contracts generally may

not be terminated by the customer prior to the end of the term. Fees are determined by such factors as collection frequency, type of equipment furnished and the type and volume or weight of the waste collected.

To service industrial customers, the Company usually transports a 20 to 40 cubic yard roll-off waste container from the customer's site to a disposal facility. These services are performed either according to an agreed upon schedule or upon customer request, and fees are negotiated on an individual contract basis. These services may be provided on a temporary basis, such as at a construction site. Fees charged for these services are based upon frequency of collection, volume or weight of the waste and the distance traveled by the Company truck. To date, no single industrial customer has provided a material amount of the Company's collection services revenues. The Company has implemented an aggressive marketing program in an effort to obtain additional contracts for the collection and disposal of industrial, nonhazardous waste streams.

*Transfer Stations.* Revenues from third-party disposal at the Company's transfer stations represented 11.5% of collection services revenues in 1995. In 1995, transfer stations operated in the Atlanta market represented 33.7% of the Company's transfer station collection services revenues. The Company owns and operates transfer stations in a suburb of Cleveland, Canal Winchester, Newark and Chillicothe, Ohio; and Pittsburgh, Pennsylvania. Additionally, the Company operates transfer stations under contract for the Counties of Rabun and Fulton, Georgia and the municipality of Lancaster, Ohio. At transfer stations, solid waste collected from individual customers is compacted and transferred to larger Company-owned vehicles and transported primarily to Company-owned or -operated landfills. At several transfer stations, the Company separates cardboard, newspaper and aluminum for resale to recyclers. The Company believes that transfer station recycling is more efficient and effective than curb-side recycling programs. The Company may seek permits for other transfer stations in the future, subject to acquisition and capital expenditure limitations imposed by the Company's unsecured bank credit agreement and Senior Notes agreements. The transfer station permitting process is nearly as complex as the landfill permitting process. Therefore, the Company cannot predict whether it will be able to obtain such permits and continue to expand its transfer station operations.

#### **Solid Waste Landfills**

The Company primarily utilizes its own landfills to accommodate its disposal requirements for its collection and transfer operations. In 1995, approximately 95% of the solid waste collected by the Company was disposed of in Company-owned or -operated landfills. These Company-owned or -operated landfills are also used by other companies and government agencies who are charged tipping fees determined by such factors as the type and volume or weight of the wastes deposited. Tipping fees charged to unaffiliated third parties accounted for \$49.3 million, or 31.4% of total revenues for 1995. The Company's Atlanta, Georgia landfills contributed 9.5% of the Company's 1995 landfill operations revenues. The Company sold its Atlanta landfills in 1996. In the aggregate, the Company's landfills accepted approximately 4.6 million tons of waste in 1995 and 4.7 million tons in 1994, approximately 67.5% and 67.1% of which, respectively, represented third-party disposal.

The Company currently owns and operates 14 nonhazardous solid waste landfills and operates one construction and demolition landfill owned by a third party. Because of increasing regulation and public concern, the Company believes that landfills will have difficulty expanding capacity, which should increase the need to transport solid waste via transfer stations to regional landfills, such as those operated by the Company.

Jacksonville, Florida landfill development project. The Company began development of the project in 1988, but was an unsuccessful bidder in the City of Jacksonville's request to design, permit, build and operate a landfill to be owned by the city. The Company's litigation alleged that the bidder chosen by the city was not qualified, based upon the City of Jacksonville's own purchasing guidelines. Based upon this decision, the Company has recorded a pretax loss of \$12,549,000 which is recorded in other income (expense) for the year ended December 31, 1995 to reflect the write-off of costs associated with the Florida landfill development project.

*Gary, Indiana.* In August 1994, the Company and a subsidiary filed suit in Lake Superior Court for Lake County, Indiana against the City of Gary, Indiana, its Mayor and each of its members of City Council for breach of contract, unjust enrichment and tortious and intentional interference with contracts arising out of Gary's failure to abide by the terms of its contract with the Company. Subsequently, the City of Gary notified the Company that it was terminating its contract with the Company. In September 1994, the Company filed a lawsuit against the City of Gary in the United States District Court for the Northern District of Indiana, Hammond Division, wherein the Company sought an injunction against the City, prohibiting it from unlawfully using its offices to implement its interpretation of the contractual agreement between the parties. The Federal District Court granted a temporary restraining order in favor of the Company. The Federal District Court later denied a preliminary injunction and dismissed the Federal case on the basis that the Court did not have jurisdiction. The Company appealed the decision to the 7th Circuit Court of Appeals which decided the case on February 22, 1995. The Court of Appeals' decision affirmed the lower court's dismissal of the suit on the grounds that there was not a violation of the Company's due process and that the contractual right did not constitute a "property right" which would have created a federal right to specific performance of the contract. The Court of Appeals remanded the proceedings to Federal District Court for findings with respect to fines due the Company from the City related to the City's failure to comply with an injunction imposed by the Federal District Court. The Court of Appeals also sent a copy of its opinion to the United States Attorney for the District of Indiana so that the executive branch may consider whether to initiate a criminal prosecution against the City for contempt of the District Court's order and also for perjury. Upon remand of the civil contempt fines issued to the Federal District Court, the District Court awarded the Company \$100,250 in civil fines and \$11,589 in attorney fees. The Seventh Circuit Court of Appeals on March 7, 1996 upheld this award. The Company intends to institute proceeding to collect the fines and award of attorney fees.

The Company's state court action in Lake Superior Court remains in process wherein the Company seeks reimbursement of \$4.6 million for remediation costs of the landfill incurred by the Company pursuant to the terms of the contract with Gary and lost profits of \$10 million to \$12 million as a result of the wrongful termination of the contract between the City and the Company. The Company also seeks a permanent injunction enjoining the City from taking any actions in breach of the contract between the parties and for other relief as the Court deems appropriate. While this case is pending, the Company is not operating the Gary Landfill.

*Investigation Related to Gary Landfill and Political Contributions.* The Company is involved in an investigation by the United States Attorney for the Northern District of Indiana into events that relate to the landfill in Gary, Indiana and certain other political activities in Gary, Indiana and elsewhere. The Company, through its former President, Mr. White, negotiated the right to operate the Gary Landfill in 1990, and such operating agreement was approved by the City Council, the Indiana Department of Environmental Management and the Lake County Superior Court. The Company has responded to a number of document subpoenas, and certain of the Company's executive officers (other than the President) and certain other employees have been requested, and have testified, before a federal grand jury investigating this matter. Each such officer or employee has received a letter from the U.S. Attorney specifying that his or her testimony has been sought "not as a subject or target of the investigation, but as a witness to matters and events to which he has knowledge."

On February 1, 1996, the board of directors of the Company authorized the Company to enter into a tolling agreement with respect to the statute of limitations on certain potential charges that would have expired by April 1996. This proposed agreement would permit the U.S. Attorney additional time (not to

extend beyond April 30, 1996) to investigate and determine whether any charges should be brought against the Company, its Indiana subsidiary or the Company's former chief executive officer. This tolling agreement was executed by the Company, the U.S. Attorney and certain other potential parties.

Following execution of the tolling agreement, the Company entered into plea negotiations with the U.S. Attorney for the Northern District of Indiana. On April 12, 1996, the grand jury returned indictments against Mr. White and a former vice president of the Company. The former officers have been charged with bribery and other violations in connection with the Company's operations in Gary, Indiana. Mr. White resigned as an officer and director of the Company on April 12, 1996. The Company anticipates entering into a plea agreement with the U.S. Attorney's office shortly. It is anticipated that the Company will plead guilty to a criminal misdemeanor charge involving campaign contributions, and its subsidiary that ran the Gary Landfill would plead nolo contendere to a charge under Title 18 U.S.C., Section 666(a)(2) involving payments to an agent of the City of Gary. The Company believes that it has accrued an adequate amount for penalties that will be assessed.

In the event no agreement is reached, the Company believes that the U.S. Attorney will bring charges against the Company, and its Indiana subsidiary. The Company believes that if such charges are brought, that such charges will have a material adverse effect on its business.

*Cleveland, Ohio.* In 1991, the Company purchased its Cuyahoga Regional Sanitary Landfill in Cleveland, Ohio and certain collection operations pursuant to an Asset Purchase Agreement. Under the terms of the Asset Purchase Agreement, the Company is required to contribute fifty percent (50%) of any settlement judgment or damage award in excess of \$5,500,000 resulting from certain litigation instituted by Browning-Ferris of Ohio, Inc. ("BFI") against the sellers of such assets. In October, 1995, a judgment was rendered in favor of BFI in such litigation. On November 13, 1995, the Company was notified that it will be required to contribute \$1,060,000 in settlement of the litigation, which amount has been accrued in the balance sheet at December 31, 1995. In addition, the Company is required, pursuant to the Asset Purchase Agreement, to provide payments to the sellers for additional permitted airspace at the landfill. Subsequent to September 30, 1995, the Company was granted a permit for 753,000 additional cubic yards of airspace and therefore, the Company will be required to pay approximately \$2,300,000 to the sellers which amount has been accrued in the balance sheet at December 31, 1995. The Company is currently negotiating with the sellers regarding the terms and form of this payment.

Although the Company strives to conduct its operations in compliance with applicable laws and regulations, the Company believes that in the existing climate, with heightened legal, political and citizen awareness and concerns, companies in the environmental services industry will face, in the normal course of operating their businesses, judicial and administrative proceedings involving federal, state and local agencies, and may be subjected to fines and penalties and the need to expend funds for remedial work and related activities with respect to waste collection, transportation and disposal. While the Company does not anticipate that the amount of fines, penalties and expenditures for remedial work and related activities at Company facilities will have a material adverse effect on the Company's operations or financial condition, the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time. Such matters could have an adverse impact on earnings for one or more fiscal quarters or years or on the Company's operations.

From time to time, the Company may also be subjected to actions brought by citizens' groups or adjacent landowners in connection with the permitting of its landfills or transfer stations, or alleging violations of the permits pursuant to which the Company operates. Certain federal and state environmental laws impose strict liability on the Company for such matters as contamination of water supplies or the improper disposal of hazardous substances. The Company may be subject to claims for personal injury or property damage arising out of motor vehicle accidents involving its trucks. The Company currently carries insurance with policy limits which management believes to be sufficient to cover any such potential claims arising out of such motor vehicle accidents.

*SEC Inquiry.* The Company has been contacted by the Securities and Exchange Commission regarding a matter under inquiry related to the Gary investigation discussed above.

## ITEM 6. SELECTED FINANCIAL DATA

### SELECTED CONSOLIDATED FINANCIAL DATA (in thousands, except per share amounts)

The following selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 1995 are derived from the Company's Consolidated Financial Statements, audited by Coopers & Lybrand L.L.P., independent public accountants. The consolidated financial data below should be read in conjunction with the Company's Consolidated Financial Statements and related notes contained elsewhere in this report and Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations.

	At or for the fiscal years ending December 31,				
	1991	1992	1993	1994	1995
<b>Consolidated Statement of Income Data(1):</b>					
Revenues:					
Collection services .....	\$ 92,031	\$131,315	\$129,891	\$115,251	\$ 107,562
Landfill operations .....	27,379	35,594	39,722	48,388	49,308
Total revenues .....	119,410	166,909	169,613	163,639	156,870
Expenses:					
Operating expenses .....	59,761	80,917	79,895	76,940	96,551
Depreciation and amortization .....	15,555	26,265	37,211	29,306	73,467
Selling, general, and administrative expenses ..	18,676	23,563	23,976	20,075	20,566
Other (income) expense .....	(6,175)	(2,234)	47,548	1,200	133,806
Interest expense .....	1,954	5,865	11,526	20,380	29,705
Total expenses .....	89,771	134,376	200,156	147,901	354,095
Income (loss) before income taxes .....	29,639	32,533	(30,543)	15,738	(197,225)
Income taxes (benefit) .....	12,537	13,827	(6,625)	6,529	(14,667)
Income (loss) before extraordinary charge .....	\$ 17,102	\$ 18,706	\$(23,918)	\$ 9,209	\$(182,558)
Extraordinary charge .....	—	—	—	(1,422)	—
Net income (loss) .....	\$ 17,102	\$ 18,706	\$(23,918)	\$ 7,787	\$(182,558)
Income (loss) before extraordinary charge per share .....	\$ .83	\$ .80	\$ (.98)	\$ .37	\$ (6.98)
Net income (loss) per share .....	\$ .83	\$ .80	\$ (.98)	\$ .31	\$ (6.98)
Cash dividends declared per common share .....	—	—	.01	—	—
Common shares and common equivalent shares ..	20,543	23,357	24,431	24,762	26,146
<b>Balance Sheet Data(1):</b>					
Working capital (deficit) .....	\$ 5,610	\$ 8,060	\$(15,176)	\$ (6,535)	\$(274,171)
Intangible assets .....	88,425	91,940	64,540	56,678	53,599
Total assets .....	478,637	680,318	666,208	679,544	515,363
Notes payable and term obligations, net of current maturities .....	192,739	315,708	332,566	330,148	(2)
Total stockholders' equity .....	232,366	291,782	269,327	278,439	109,683

(1) From 1991 through 1995, the Company has made a substantial number of acquisitions and has divested several non-integrated collection operations, which significantly affect the comparability of the Company's results of operations for such periods. During 1991, 1992, 1993 and 1995, the Company acquired 43, 8, 9 and 1 collection and landfill operations, respectively, for total costs of \$117,340, \$32,675, \$1,439 and \$2,360, respectively. The Company did not make any acquisitions during 1994.

(2) All notes payable and term obligations are classified as current liabilities at December 31, 1995.



## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes and Selected Financial Data included under Item 6 of this Form 10-K.

### **Introduction**

The Company commenced operations in January 1986 with the acquisition of two waste collection companies. Since that time, it has completed the acquisition of over 125 additional independent collection operations, transfer stations and tuck-in acquisitions (acquisitions of customer lists, routes and equipment in markets already served by the Company). The Company acquired its first solid waste landfill site in February 1987, and currently owns and operates 14 landfills and operates one privately-owned landfill. In addition, the Company has divested several non-integrated collection operations and its sludge management business and closed several Company-owned and -operated landfills during 1993 to 1995. The Company's acquisitions and divestitures significantly affect the comparability of the Company's results of operations for such periods.

The Company's revenues from its waste collection operations consist of fees from residential, commercial and industrial collection and transfer station customers. A majority of the Company's residential collection services are provided on a subscription basis, where the Company contracts directly with the household. The subscription customer is billed in advance and the fee does not vary with the volume of the solid waste collected. These residential subscription customers, who are generally less price sensitive, provide the Company with a stable source of revenues and an efficient means to utilize the Company's resources, including its equipment, manpower and automated reporting systems. The Company also provides residential collection services on a municipal contract basis, where the Company contracts to collect from all residents in a specified area. These contracts, which are usually competitively bid, generally have terms of one to ten years and provide consistent cash flow during the term of the contract since the Company is paid monthly. The Company selectively bids for such contracts in areas near those where it already provides subscription residential services. The Company also serves commercial and industrial customers in areas surrounding its residential collection markets as a means of improving operating efficiencies and providing additional volume for the Company's landfills. Commercial and industrial contracts are individually negotiated and typically billed monthly.

The Company's revenues from landfill operations are comprised of disposal fees (known as tipping fees) charged to third parties and are billed on a biweekly basis. The Company's landfills receive solid waste from its own collection companies as well as from third parties. Tipping fees to the Company's landfills from its collection operations are considered intercompany revenues and are eliminated from the Company's consolidated landfill operations revenues, and operating expenses do not include charges for disposal in Company-owned or operated sites.

Operating expenses for collection operations include direct labor, fuel, equipment maintenance and tipping fees paid to third-party landfills. Operating expenses for landfill operations include the legal and administrative costs of ongoing environmental compliance, royalties to former owners and site maintenance as well as accruals for future closure costs. Engineering, legal, permitting, construction and other direct costs associated with the development of new landfills, expansions of existing landfills and cell development, together with associated interest, are capitalized and, upon receipt of all necessary operating permits, are amortized based on utilization of available airspace. Indirect project development costs, such as executive and corporate overhead, public affairs and other corporate services are expensed as incurred.

At December 31, 1995, capitalized costs directly related to landfill development costs were \$146,368,000. All of these capitalized costs are discussed in Note 1 of Notes to the Consolidated Financial Statements. The Company reviews the realization of these capitalized project costs on a regular basis. The Company's landfills are in substantial compliance with the EPA's promulgated standards for landfill operation and closure, and management believes that the Company has adequately provided for landfill closure and post-closure costs. See Item 1 — Business — Landfill Development Projects and Landfill Expansions.

Selling, general and administrative expenses include management salaries, clerical and administrative overhead, costs associated with the Company's commercial and industrial sales force and community relations expenses.

The Company's viability as a going concern is dependent upon the restructuring of its obligations and asset base, and ultimately, a return to profitability. In addition, as more fully described in Note 8, the Company is a party to certain criminal charges and an SEC inquiry in connection with its Gary landfill. The Company recorded a net loss of \$182,558,000 for 1995, had negative working capital of \$274,171,000 at December 31, 1995 and was in default on certain debt agreements which are classified as current liabilities in the accompanying balance sheet. If present trends continue and the Company is unable to obtain relief or otherwise cure the events of default, the Company may be required to seek protection under federal bankruptcy laws.

The Company is currently in default under its principal debt instruments. The Company has defaulted on several financial and other covenants under its bank credit agreement and senior notes. The Company has failed to pay the last installment of interest due on its Senior Subordinated Notes. Other defaults may exist under its other debt instruments. As a result, the holders of such debt instruments have the right to accelerate the maturity of their debt instruments or to take other remedies. No assurance can be given that the lenders will not accelerate their debt instruments at any time. If such debt instruments were accelerated, the Company does not currently have sufficient cash or other resources to repay such debt.

The following table presents, for the periods indicated, the percentage relationship which the various items bear to total revenues and the percentage increase (decrease) in the dollar amounts of such items:

	Percentage Relationship to Total Revenues Years Ended December 31,			Period-to-Period Change Years Ended December 31,	
	1993	1994	1995	1994 vs. 1993	1995 vs. 1994
Revenues:					
Collection services .....	76.6 %	70.4%	68.6 %	(11.3)%	(6.7)%
Landfill operations .....	23.4	29.6	31.4	21.8	1.9
Total revenues .....	100.0	100.0	100.0	(3.5)	(4.1)
Expenses:					
Operating expenses .....	47.1	47.0	61.5	(3.7)	25.5
Depreciation and amortization .....	21.9	17.9	46.8	(21.2)	150.7
Selling, general and administrative expenses .....	14.2	12.3	13.1	(16.3)	2.4
Interest expense .....	6.8	12.5	18.9	76.8	45.8
Other expense .....	28.0	0.7	85.4	97.5	11,050.5
Total expenses .....	118.0	90.4	(225.7)	(26.1)	139.4
Income (loss) before income taxes .....	(18.0)	9.6	(125.7)	151.5	(1,353.2)
Income taxes (benefit) .....	(3.9)	4.0	(9.3)	198.6	(324.6)
Income (loss) before extraordinary charge .....	(14.1)	5.6	(116.4)	138.5	(2,082.4)
Extraordinary charge .....	—	(0.8)	—	N/M	N/M
Net income (loss) .....	(14.1)%	4.8%	(116.4)%	132.6 %	(2,444.4)%

## Results of Operations

### 1995 Compared to 1994

**Revenues.** Total revenues decreased 4.1% from \$163,639,000 in 1994 to \$156,870,000 in 1995. This decrease was primarily the result of the divestiture of several non-integrated collection operations during late 1994 and 1995.

The 1995 net changes in components of collection services revenues are as follows:

1994 Collection services revenues .....	<u>\$115,251,000</u>
Net changes in components of revenue:	
Divestitures .....	(9,107,000)
Acquisitions .....	994,000
Price .....	1,698,000
Volume .....	<u>(1,274,000)</u>
Net decrease .....	<u>(7,689,000)</u>
1995 Collection services revenues .....	<u>\$107,562,000</u>

Collection services revenues decreased 6.7% from \$115,251,000 in 1994 to \$107,562,000 in 1995. Divestitures of collection operations during late 1994 and 1995 whose waste streams were not integrated into Company-owned or operated landfills reduced 1995 revenues by \$9,107,000. During 1995, the Company completed the acquisition of an integrated collection business located in the Clarksburg, West Virginia market. This acquisition represented incremental collection services revenue of \$994,000 from 1994 to 1995. Price increases subsequent to December 31, 1994 increased collection services revenue by \$369,000. In addition, the Company recorded a \$1,329,000 recycling revenue increase in 1995 which was attributable to increased commodity prices received for the sale of recyclable products. Competitive pressures continued to be a significant factor, and the Company experienced its first volume decrease of \$1,274,000, principally as a result of a drop in industrial volumes and the loss of several residential municipal contracts, primarily in the Parkersburg, West Virginia market.

The 1995 net changes in components of landfill operations revenues are as follows:

1994 Landfill operations revenues .....	<u>\$48,388,000</u>
Net changes in components of revenue:	
Price .....	2,064,000
Volume .....	<u>(1,144,000)</u>
Net increase .....	<u>920,000</u>
1995 Landfill operations revenues .....	<u>\$49,308,000</u>

Landfill operations revenues increased 1.9% from \$48,388,000 in 1994 to \$49,308,000 in 1995. Aggregate price increases at Company-owned or operated landfills increased landfill operations revenue by \$2,064,000. The average tipping fee charged per ton by the Company's landfills increased to \$15.97 in 1995 from \$15.32 in 1994. Although the Company experienced higher volumes at most of its fourteen operated facilities, these volume increases did not offset the loss of volumes from the City of Gary, Indiana landfill which the Company operated during the first ten months of 1994. Landfill operations revenues were adversely affected in 1995 as a result of actions taken by the Mayor and City Council of the City of Gary in the fourth quarter of 1994, which breached the Company's operating contract with the City. During late 1995, the Company elected to write-off its investment in the Gary Landfill as it was not economically feasible to continue investment in the site as a result of no agreement being reached with the City. Landfill operations revenues from the Gary Landfill in 1994 were \$3,177,000. Landfill operations revenues were also adversely affected by the temporary reduction in volumes at its RCC-Berwind landfill for several months in 1995. The Company recorded an impairment of the carrying value of this asset of \$17,048,000 at December 31, 1995 reflecting the excess of the carrying value over the discounted future cash flow stream.

*Operating Expenses.*

	<u>1994</u>	<u>% of Total Revenues</u>	<u>1995</u>	<u>% of Total Revenues</u>
Operating expenses .....	\$76,940,000	47.0%	\$96,551,000	61.5%
1995 Closure and post-closure expenses			19,958,000	12.7
Operating expenses from recurring operations .....	<u>\$76,940,000</u>	<u>47.0%</u>	<u>\$76,593,000</u>	<u>48.8%</u>

Operating expenses increased 25.5% from \$76,940,000 in 1994 to \$96,551,000 in 1995 and represented 47.0% of total revenues in 1994 compared to 61.5% of total revenues in 1995. This increase was primarily due to increased closure accruals for additional closure, postclosure and remediation liabilities of \$19,958,000 recorded during 1995 reflecting the impact of restructured or expanded permits and changed regulations at existing sites. It also reflects changes in estimates for closure costs for several of the Company's landfills that are expected to close in the near future, primarily the Company's Cuyahoga Regional Sanitary Landfill in Cleveland, Ohio. Operating expenses from recurring operations decreased \$347,000 from \$76,940,000 in 1994 to \$76,593,000 in 1995, and represented 47.0% and 48.8% of total revenues in 1994 and 1995, respectively. This slight decrease in operating expenses from recurring operations was primarily attributable to collection operation divestitures.

*Depreciation and Amortization.*

	<u>1994</u>	<u>% of Total Revenues</u>	<u>1995</u>	<u>% of Total Revenues</u>
Depreciation and amortization .....	\$29,306,000	17.9%	\$73,467,000	46.8%
Impairment .....			42,503,000	27.1
Depreciation and amortization from recurring operations .....	<u>\$29,306,000</u>	<u>17.9%</u>	<u>\$30,964,000</u>	<u>19.7%</u>

Depreciation and amortization increased 150.7% from \$29,306,000 in 1994 to \$73,467,000 in 1995. These expenses represented 17.9% and 46.8% of total revenues in 1994 and 1995, respectively. These dollar and percentage increases were primarily attributable to the \$42,503,000 write-down of certain landfills to their impaired value. Depreciation and amortization from recurring operations increased \$1,658,000 from \$29,306,000 in 1994 to \$30,964,000 in 1995 and represented 17.9% and 19.7% of total revenues in 1994 and 1995, respectively. Depreciation and amortization from recurring operations increased due to increased landfill amortization of \$2,924,000, from \$9,497,000 in 1994 to \$12,421,000 in 1995. Depreciation and amortization from recurring operations increased as a percentage of revenues because landfill amortization per ton of waste deposited in Company-owned or operated landfills increased to \$2.72 per ton in 1995 from \$2.02 per ton in 1994. Landfills and landfill acquisition costs are depleted on the unit-of-production method, which is calculated on the basis of the relationship between the amount of permitted airspace in the landfills and the amount of that airspace filled during a particular period. Thus, depreciation and amortization attributable to landfills will vary with changes in the volume of waste deposited in and the permitted life of the landfills.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 2.4% from \$20,075,000 in 1994 to \$20,566,000 in 1995. These expenses represented 12.3% and 13.1% of total revenues in 1994 and 1995, respectively. The 1995 dollar and percentage increases of selling, general and administrative expenses were attributable to increased legal, professional and related litigation expenses incurred in connection with the Company's landfill contract for the City of Gary, Indiana landfill and the expenditure of approximately \$600,000 during 1995 for legal and proxy solicitation costs related to the Company's Annual Meeting of Stockholders.

*Other Expenses.* Other expenses increased \$132,606,000 from \$1,200,000 in 1994 to \$133,806,000 in 1995 and represented 0.7% and 85.4% of total revenues in 1994 and 1995, respectively. Other expenses for 1995 includes a \$87,733,000 charge for the write-off of the investments in several of the Company's landfill development projects, including the projects located in San Diego County, California and Jacksonville,

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

	December 31,	
	1994	1995
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 12,206,000	\$ 8,602,000
Trade accounts receivable, less allowances for doubtful accounts of \$1,284,000 and \$409,000 .....	17,524,000	13,723,000
Refundable income taxes .....		10,691,000
Other receivables .....	5,880,000	2,078,000
Prepaid expenses and other current assets .....	6,405,000	5,511,000
Assets held for sale .....		45,091,000
Total current assets .....	<u>42,015,000</u>	<u>85,696,000</u>
PROPERTY AND EQUIPMENT, less accumulated depreciation and amortization of \$81,477,000 and \$78,582,000 .....	<u>553,980,000</u>	<u>355,838,000</u>
EXCESS OF COST OVER NET ASSETS OF ACQUIRED BUSINESSES, net of amortization .....	32,827,000	20,587,000
OTHER INTANGIBLE ASSETS, net of amortization .....	23,851,000	15,012,000
OTHER ASSETS .....	26,871,000	38,230,000
	<u>83,549,000</u>	<u>73,829,000</u>
	<u>\$679,544,000</u>	<u>\$515,363,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable .....	\$ 16,442,000	\$ 12,710,000
Current maturities of notes payable and term obligations .....	13,177,000	326,309,000
Accrued interest .....	9,978,000	9,667,000
Accrued expenses and taxes .....	8,953,000	11,181,000
Total current liabilities .....	<u>48,550,000</u>	<u>359,867,000</u>
NOTES PAYABLE AND TERM OBLIGATIONS .....	<u>330,148,000</u>	
DEFERRED INCOME TAXES .....	<u>13,564,000</u>	<u>14,274,000</u>
OTHER LIABILITIES .....	<u>8,843,000</u>	<u>31,539,000</u>
<b>COMMITMENTS AND CONTINGENCIES STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$1.00 par value, 2,000,000 shares authorized, none issued .....		
Common stock, \$1.00 par value, 50,000,000 shares authorized, 24,834,045 issued in 1994 and 28,038,800 issued in 1995 .....	24,834,000	28,039,000
Additional paid-in capital .....	223,345,000	233,806,000
Retained earnings .....	31,854,000	(150,704,000)
	<u>280,033,000</u>	<u>111,141,000</u>
Deferred compensation .....	(1,379,000)	(1,243,000)
Treasury stock, 53,850 shares, at cost .....	(215,000)	(215,000)
Total stockholders' equity .....	<u>278,439,000</u>	<u>109,683,000</u>
	<u>\$679,544,000</u>	<u>\$515,363,000</u>

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

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**

	Year Ended December 31,		
	1993	1994	1995
<b>REVENUES:</b>			
Collection services .....	\$129,891,000	\$115,251,000	\$ 107,562,000
Landfill operations .....	39,722,000	48,388,000	49,308,000
	<u>169,613,000</u>	<u>163,639,000</u>	<u>156,870,000</u>
<b>EXPENSES:</b>			
Operating expenses .....	79,895,000	76,940,000	96,551,000
Depreciation and amortization .....	37,211,000	29,306,000	73,467,000
Selling, general and administrative expenses .....	23,976,000	20,075,000	20,566,000
Other income and expense .....	47,548,000	1,200,000	133,806,000
Interest expense .....	11,526,000	20,380,000	29,705,000
	<u>200,156,000</u>	<u>147,901,000</u>	<u>354,095,000</u>
(Loss) income before income taxes .....	(30,543,000)	15,738,000	(197,225,000)
INCOME TAXES (BENEFIT) .....	(6,625,000)	6,529,000	(14,667,000)
(LOSS) INCOME BEFORE EXTRAORDINARY CHARGE .....	(23,918,000)	9,209,000	(182,558,000)
Extraordinary charge net of income tax benefit of \$998,000 .....		(1,422,000)	
NET (LOSS) INCOME .....	<u>\$ (23,918,000)</u>	<u>\$ 7,787,000</u>	<u>\$ (182,558,000)</u>
(LOSS) INCOME BEFORE EXTRAORDINARY CHARGE PER SHARE .....	<u>\$ (.98)</u>	<u>\$ .37</u>	<u>\$ (6.98)</u>
NET (LOSS) INCOME PER SHARE .....	<u>\$ (.98)</u>	<u>\$ .31</u>	<u>\$ (6.98)</u>
Common shares and common equivalent shares outstanding .....	<u>24,431,048</u>	<u>24,761,508</u>	<u>26,145,709</u>

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

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**for the Years Ended December 31, 1993, 1994 and 1995**  
**(in 000's except number of shares)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>		<u>Deferred</u>	<u>Treasury</u>	
	<u>Number</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Subtotal</u>	<u>Compensation</u>	<u>Stock</u>	<u>Total</u>
BALANCE, at								
December 31, 1992 .....	24,175,128	\$24,229	\$219,715	\$ 48,229	\$ 292,173	\$ (176)	\$(215)	\$ 291,782
Net proceeds from issuance of common stock .....	103,535	103	748		851			851
Compensation expense .....						166		166
Exercise of warrants and stock options and issuance of restricted stock .....	275,943	276	1,937		2,213	(1,523)		690
Cash dividends .....				(244)	(244)			(244)
Net loss .....				(23,918)	(23,918)			(23,918)
BALANCE, at								
December 31, 1993 .....	24,554,606	24,608	222,400	24,067	271,075	(1,533)	(215)	269,327
Net proceeds from issuance of common stock .....	206,186	206	818		1,024			1,024
Compensation expense .....						154		154
Exercise of stock options ....	19,403	20	127		147			147
Net income .....				7,787	7,787			7,787
BALANCE, at								
December 31, 1994 .....	24,780,195	24,834	223,345	31,854	280,033	(1,379)	(215)	278,439
Net proceeds from issuance of common stock .....	3,204,755	3,205	10,461		13,666			13,666
Compensation expense .....						136		136
Net loss .....				(182,558)	(182,558)			(182,558)
BALANCE, AT								
DECEMBER 31, 1995 ...	<u>27,984,950</u>	<u>\$28,039</u>	<u>\$233,806</u>	<u>\$(150,704)</u>	<u>\$ 111,141</u>	<u>\$(1,243)</u>	<u>\$(215)</u>	<u>\$ 109,683</u>

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

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	1993	1994	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) .....	\$(23,918,000)	\$ 7,787,000	\$(182,558,000)
Adjustments to reconcile net income from operations to net cash provided by operating activities:			
Depreciation and amortization .....	37,211,000	29,306,000	73,466,000
Deferred income taxes (benefit) .....	(12,255,000)	3,521,000	(6,714,000)
Losses on sales of property and equipment .....	25,774,000	2,208,000	31,026,000
Amortization of debt issuance and refinancing costs .....	871,000	1,306,000	1,470,000
Amortization of deferred compensation .....	166,000	154,000	136,000
Closure and post closure .....	2,075,000	3,343,000	22,696,000
Writedown of property and equipment .....	23,201,000		103,503,000
Extraordinary charge .....		2,420,000	
Change in assets and liabilities, net of effects from acquisitions:			
(Increase) in accounts receivable .....	(283,000)	(1,432,000)	(2,082,000)
(Increase) in prepaid expenses and other current assets .....	(907,000)	(337,000)	(280,000)
Increase (decrease) in accounts payable .....	(4,585,000)	(6,559,000)	(2,016,000)
Increase (decrease) in accrued expenses .....	(1,737,000)	5,491,000	966,000
Total adjustments .....	69,531,000	39,421,000	222,171,000
Cash provided by operating activities .....	45,613,000	47,208,000	39,613,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to property and equipment .....	(85,953,000)	(48,446,000)	(28,713,000)
Business acquisitions .....	(642,000)		
Proceeds on sales of collection operations and property and equipment .....	9,286,000	9,394,000	9,685,000
Sale of investments .....	14,428,000		
Other .....	(698,000)	6,165,000	(15,182,000)
Cash used in investing activities .....	(63,579,000)	(32,887,000)	(34,210,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Additions to notes payable and term obligations ...	57,943,000	179,330,000	700,000
Payments of notes payable and term obligations ...	(48,256,000)	(178,200,000)	(19,394,000)
Debt issuance and refinancing costs .....	(2,299,000)	(8,957,000)	(620,000)
Proceeds from issuance of common stock and warrants, net .....	689,000	147,000	10,307,000
Dividends paid .....	(244,000)		
Cash provided by (used in) financing activities .....	7,833,000	(7,680,000)	(9,007,000)
Increase (decrease) in cash and cash equivalents .....	(10,133,000)	6,641,000	(3,604,000)
Cash and cash equivalents, beginning of period .....	15,698,000	5,565,000	12,206,000
Cash and cash equivalents, end of period ...	\$ 5,565,000	\$ 12,206,000	\$ 8,602,000

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



**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

During August 1995, the Company completed the sale of 2,517,647 shares of its Common Stock resulting in gross proceeds of \$10,308,000 in a placement to investors pursuant to Regulation S of the Securities Act of 1933. The proceeds were used by the Company to establish a stand-by trust fund for post-closure costs at certain of its Ohio landfills and to paydown an aggregate of approximately \$3,578,000 of its 8.85% Senior Notes, 9.23% Senior Notes and borrowings under its unsecured bank credit agreement.

During 1993, 103,535 shares of Common Stock valued at \$852,000 were issued by the Company for the purchase of land located adjacent to a landfill. During 1994, the Company issued 124,480 shares of Common Stock valued at \$766,000 in connection with the settlement of a liability and 81,706 shares of Common Stock valued at \$258,000 in settlement of accounts payable for landfill development projects. During 1995, the Company issued 215,108 shares of its Common Stock valued at \$1,000,000 in settlement of liabilities for landfill development projects.

On May 20, 1993 and August 17, 1993, the Board of Directors of the Company declared one-half cent (\$.005) per share cash dividends on all outstanding shares of Common Stock. The May 20, 1993 dividend was paid on June 15, 1993 to stockholders of record on June 1, 1993. The August 17, 1993 dividend was paid on September 15, 1993 to stockholders of record on September 1, 1993.

The Company has issued Common Stock warrants pursuant to private placement offerings of equity securities and certain subordinated debentures. Each warrant represents the right to purchase one share of Common Stock and is exercisable for cash. During 1993, 134,143 warrants were exercised by payment of \$540,000 in cash. In addition, 1,967 Common Stock warrants at a price per share of \$6.67 expired. During 1995, 361,626 warrants at a price per share of \$13.22 expired.

The Company maintains a Restricted Stock Plan which provides for the granting of up to 300,000 shares of Common Stock. These shares may be granted to officers and key management employees who are regular full-time employees at the date of grant. The restricted stock is subject to a vesting schedule based on years of service. The Company has issued 58,147 shares under the Restricted Stock Plan. The restricted stock awards were valued at \$1,282,000 and are being charged to compensation expense over the vesting period.

During January 1993, 121,800 restricted shares of Common Stock valued at \$1,523,000 were issued to management in consideration for the elimination of certain provisions of their then existing employment agreements. The restricted stock is subject to a vesting schedule as set forth in the restricted stock agreements, and is being charged to compensation expense over the vesting period.

**7. Stock Option Plans:**

The Company has two plans under which stock options may be granted. Participation in a plan is determined by the Compensation Committee of the Board of Directors. No option shall be granted with an exercise period of more than ten years after the date on which the options are granted.

The Stock Option Plan provides for the granting of both Incentive Stock Options and Non-Qualified Stock Options for up to 1,875,000 shares of Common Stock. The option price per share shall not be lower than the fair market value of the Common Stock on the date of the grant. The options become exercisable pursuant to the vesting schedule imposed by the Compensation Committee upon the grant of the options.

The Director Stock Option Plan provides for the granting of up to 150,000 shares of Common Stock. These options may be granted only to non-employee directors of the Company or its subsidiaries. Upon election as a non-employee director, the Director Stock Option Plan provides for the grant of immediately exercisable options to purchase 15,000 shares of Common Stock at fair market value at the date of grant. Annually, each director will be granted an option to purchase 1,500 shares of Common Stock. In addition, each eligible director may elect to receive stock options in lieu of director fees, the exercise price of which will be \$1.00 per share less than the fair market value of the Common Stock.

# MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 1993, due to the reduced market price of the Company's Common Stock, the Compensation Committee of the Company's Board of Directors repriced 784,634 stock options which were issued from May 1990 to May 1992 with original prices per share of \$14.83 to \$24.50 to a price per share of \$10.63, the fair market value of the Common Stock on the date of the repricing.

The following table summarizes the activity relating to the Company's stock option plans:

	Stock Option Plan	Director Stock Option Plan	Exercise Price Per Share
Outstanding at December 31, 1992 .....	959,412	71,000	\$7.50-\$24.50
Granted .....	425,625	18,000	\$13.94
Exercised .....		(20,000)	\$ 7.50
Canceled .....	(74,666)	(19,500)	\$7.50-\$22.83
Outstanding at December 31, 1993 .....	1,310,371	49,500	\$7.50-\$20.83
Granted .....	99,200	44,000	\$6.00-\$20.83
Exercised .....	(11,903)	(7,500)	\$ 7.50
Canceled .....	(95,832)		\$6.75-\$14.83
Outstanding at December 31, 1994 .....	1,301,836	86,000	\$6.00-\$20.83
Canceled .....	(43,351)		\$6.75-\$13.94
Outstanding at December 31, 1995 .....	1,258,485	86,000	\$6.00-\$20.83
Exercisable at December 31, 1995 .....	1,207,229	86,000	\$6.00-\$20.83

The Financial Accounting Standards Board has recently issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which must be implemented by the year ending December 31, 1996. Generally, this statement requires companies to either recognize or disclose on a pro forma basis, compensation expense for grants of stock, stock options, and other equity instruments to employees, based on the new fair value accounting rules. The Company has not determined the impact this pronouncement will have on the financial statements.

### 8. Commitments and Contingencies:

In the normal course of its business, and as a result of the extensive governmental regulation of the solid waste industry, the Company periodically may become subject to various judicial and administrative proceedings involving federal, state or local agencies. In these proceedings, the agency may seek to impose fines on the Company or to revoke or deny renewal of an operating permit held by the Company. From time to time, the Company also may be subjected to actions brought by citizens' groups in connection with the permitting of its landfills or transfer stations, or alleging violations of the permits pursuant to which the Company operates. Certain federal and state environmental laws impose strict liability on the Company for such matters as contamination of water supplies or the improper disposal of hazardous waste. The Company's operation of landfills subjects it to certain operational, monitoring, site maintenance, closure and post-closure obligations which could give rise to increased costs for monitoring and corrective measures. In connection with the Company's acquisition of existing landfills, it is often necessary to expend considerable time, effort and money in complying with the permitting process necessary to increase the capacity of these landfills. Governmental authorities have the power to enforce compliance with these regulations and to obtain injunctions or impose fines in a case of violations. During the ordinary course of its landfill operations, the Company may from time to time receive citations or notices from such authorities that such operations are not in compliance with applicable environmental regulations. Upon receipt of such citations or notices, the Company works with the authorities in an attempt to resolve the issues raised by such citations or notices.

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Failure to correct the problems to the satisfaction of the authorities could lead to curtailed operations or even closure of the landfill.

The Company has obtained environmental impairment liability insurance covering claims for sudden or gradual onset environmental damage at certain landfill sites in amounts mandated by state and federal statutes. If the Company were to incur liability for environmental damage in excess of its insurance limits, its financial condition could be adversely affected. The Company carries a comprehensive general liability insurance policy which management considers adequate to protect its assets and operations from other risks. The Company also may be subject to claims for personal injury or property damage arising out of motor vehicle accidents involving its trucks. The Company currently carries insurance with policy limits which management believes to be sufficient to cover this risk.

The Company is usually required to post a performance bond or bank letter of credit at the time of execution of a municipal residential collection contract. In addition, the Company has been required to post a surety bond to secure its obligations to close its landfills in accordance with environmental regulations. At December 31, 1995, the Company had provided letters of credit totaling \$43,427,000 and surety bonds totaling \$57,171,000 to secure the Company's landfill closure obligations.

The Company maintains self-insurance retention limits for its insurance coverage. Accrued self-insurance costs at December 31, 1994 and 1995 were \$2,905,000 and \$3,182,000, respectively.

In 1991, the Company purchased its Cuyahoga Regional Sanitary Landfill in Cleveland, Ohio and certain collection operations pursuant to an Asset Purchase Agreement. Under the terms of the Asset Purchase Agreement, the Company is required to contribute fifty percent (50%) of any settlement judgment or damage award in excess of \$5,500,000 resulting from certain litigation instituted by Browning-Ferris of Ohio, Inc. ("BFI") against the sellers of such assets. In October 1995, a judgment was rendered in favor of BFI in such litigation. On November 13, 1995, the Company was notified that it will be required to contribute \$1,060,000 in settlement of the litigation. In addition, the Company is required, pursuant to the Asset Purchase Agreement, to provide payments to the sellers for additional permitted airspace at the landfill. In 1995, the Company was granted a permit for 753,000 additional cubic yards of airspace and therefore, the Company will be required to pay approximately \$2,300,000 to the sellers which amount has been accrued in the balance sheet at December 31, 1995. The Company is currently negotiating with the sellers regarding the terms and form of the payments discussed above. These payments may be made in cash, Common Stock, contingent royalty payments or a combination thereof.

In August 1990, the Company entered into an agreement with Muht-Hei, Inc., a corporation formed by the Campo Band of Mission Indians, to design, obtain a permit for, construct and operate a new 400-acre landfill located on the Indians' reservation approximately 50 miles east of San Diego, California (the "Campo Project"). In 1995, the Company determined that the Campo Project was no longer economically feasible to continue. The Company has negotiated a proposed settlement with Muht-Hei, Inc. subject to review and approval by the tribe's legal counsel and Federal authorities. The proposed settlement calls for payments totalling \$1,150,000 of which \$300,000 has been paid through March 31, 1996 and \$850,000 to be paid over the next 10 months. The entire amount was accrued in the balance sheet at December 31, 1995. In addition, the Company will receive a royalty of \$.50 per ton for the life of the site, based on certain performance criteria and is to be paid if the landfill is constructed. Based upon the settlement, the Company has recorded a pre-tax charge of \$33,816,000.

On October 25, 1995, the District Court of Appeal, First District, State of Florida upheld an unfavorable lower court ruling rendered by the Circuit Court, Fourth Federal District of Duval County, Florida. The Company initiated the case in 1991, in connection with the Company's Jacksonville, Florida landfill development project. The Company began development of the project in 1988, but was an unsuccessful bidder in the City of Jacksonville's request to design, permit, build and operate a landfill to be operated by the city.

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company's litigation alleged that the bidder chosen by the city was not qualified, based upon the City of Jacksonville's own purchasing guidelines. Based upon this decision, the Company has recorded a pretax loss of \$12,548,000 which is recorded in other expense for year ended December 31, 1995 to reflect the write-off of costs associated with the Florida landfill development project.

In August 1994, the Company and a subsidiary filed suit in Lake Superior Court for Lake County, Indiana against the City of Gary, Indiana, its Mayor and each of its members of City Council for breach of contract, unjust enrichment and tortious and intentional interference with contracts arising out of Gary's failure to abide by the terms of its contract with the Company. Subsequently, the City of Gary notified the Company that it was terminating its contract with the Company. In September 1994, the Company filed a lawsuit against the City of Gary in the United States District Court for the Northern District of Indiana, Hammond Division, wherein the Company sought an injunction against the City, prohibiting it from unlawfully using its offices to implement its interpretation of the contractual agreement between the parties. The Federal District Court granted a temporary restraining order in favor of the Company. The Federal District Court later denied a preliminary injunction and dismissed the Federal case on the basis that the Court did not have jurisdiction. The Company appealed the decision to the 7th Circuit Court of Appeals which decided the case on February 22, 1995. The Court of Appeals' decision affirmed the lower court's dismissal of the suit on the grounds that there was not a violation of the Company's due process and that the contractual right did not constitute a "property right" which would have created a federal right to specific performance of the contract. The Court of Appeals remanded the proceedings to Federal District Court for findings with respect to fines due the Company from the City related to the City's failure to comply with an injunction imposed by the Federal District Court. The Court of Appeals also sent a copy of its opinion to the United States Attorney for the District of Indiana so that the executive branch may consider whether to initiate a criminal prosecution against the City for contempt of the District Court's order and also for perjury. Upon remand of the civil contempt fines issued to the Federal District Court, the District Court awarded the Company \$110,250 in civil fines and \$11,589 in attorney fees. The Seventh Circuit Court of Appeals on March 7, 1996 upheld this award. The Company intends to institute proceeding to collect the fines and award of attorney fees.

The Company's state court action in Lake Superior Court remains in process wherein the Company seeks reimbursement of \$4.6 million for remediation costs of the landfill incurred by the Company pursuant to the terms of the contract with Gary and lost profits of \$10 million to \$12 million as a result of the wrongful termination of the contract between the City and the Company. The Company also seeks a permanent injunction enjoining the City from taking any actions in breach of the contract between the parties and for other relief as the Court deems appropriate. While this case is pending, the Company is not operating the Gary Landfill.

*Investigation Related to Gary Landfill and Political Contributions.* The Company is involved in an investigation by the United States Attorney for the Northern District of Indiana into events that relate to the landfill in Gary, Indiana and certain other political activities in Gary, Indiana and elsewhere. The Company, through its former President, Mr. White, negotiated the right to operate the Gary Landfill in 1990, and such operating agreement was approved by the City Council, the Indiana Department of Environmental Management and the Lake County Superior Court. The Company has responded to a number of document subpoenas, and certain of the Company's executive officers (other than the President) and certain other employees have been requested, and have testified, before a federal grand jury investigating the matter. Each such officer or employee has received a letter from the U.S. Attorney specifying that his or her testimony has been sought "not as a subject or target of the investigation, but as a witness to matters and events to which he has knowledge.

On February 1, 1996, the board of directors of the Company authorized the Company to enter into a tolling agreement with respect to the statute of limitations on certain potential charges that would have

**MID-AMERICAN WASTE SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

expired by April 1996. This proposed agreement would permit the U.S. Attorney additional time (not to extend beyond April 30, 1996) to investigate and determine whether any charges should be brought against the Company, its Indiana subsidiary or the Company's former chief executive officer. This tolling agreement was executed by the Company, the U.S. Attorney and certain other potential parties.

Following execution of the tolling agreement, the Company entered into plea negotiations with the U.S. Attorney for the Northern District of Indiana. On April 12, 1996, the grand jury returned indictments against Mr. White and a former vice president of the Company. The former officers have been charged with bribery and other violations in connection with the Company's operations in Gary, Indiana. Mr. White resigned as an officer and director of the Company on April 12, 1996. The Company anticipates entering into a plea agreement with the U.S. Attorney's office in the near future. It is anticipated that the Company will plead guilty to a criminal misdemeanor charge involving campaign contributions, its subsidiary that ran the Gary Landfill will plead nolo contendere to a charge under Title 18 U.S.C., Section 666(a)(2) involving payments to an agent of the City of Gary. The Company believes that it has accrued an adequate amount for penalties that will be assessed.

In the event no agreement is reached, the Company believes that the U.S. Attorney will bring charges against the Company, and its Indiana subsidiary. The Company believes that if such charges are brought, that such charges will have a material adverse effect on its business.

*SEC Inquiry.* The Company has been contacted by the Securities and Exchange Commission regarding a matter under inquiry related to the Gary investigation discussed above.

**9. Profit Sharing Plan:**

The Company maintains a defined contributory 401(k) profit sharing plan for employees meeting certain service requirements. Eligible employees may contribute amounts up to the lesser of 25% of their annual compensation or the maximum amount permitted under IRS regulations to their 401(k) account. Under the plan, the Company is required to match 50% of all employee contributions. The Company may also make discretionary contributions to the profit sharing portion of the plan for the benefit of all eligible employees. During 1993, 1994 and 1995, the Company matching contributions charged to income totaled \$405,000, \$411,000, and \$383,000, respectively. There were no discretionary profit sharing contributions during 1993, 1994 or 1995.

**10. Other Income and Expense**

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Write-down of assets due to closures of landfills .....	\$ (5,201,000)		
Loss on Gary Landfill contract .....			\$ (15,771,000)
Write-off of assets due to discontinuation of development project investments .....			(87,733,000)
Write-down of assets held for sale .....	(15,800,000)		(12,666,000)
Net losses on sale of assets .....	(26,000,000)	\$(2,682,000)	(18,452,000)
Severance costs .....	(1,835,000)		
Interest income .....	1,653,000	1,482,000	816,000
Other provisions .....	(365,000)		
	<u>\$ (47,548,000)</u>	<u>\$ (1,200,000)</u>	<u>\$ (133,806,000)</u>

The Company previously operated an existing landfill under a contract with the City of Gary. Under the terms of the agreement the Company had previously funded certain remediation costs and capital expendi-