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Conference Call Transcript

BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

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CORPORATE PARTICIPANTS**Andrea Rudnick***IESI-BFC Ltd - VP-Corporate Development and Communications***Keith Carrigan***IESI-BFC Ltd - Vice-Chairman and CEO***Tom Cowee***IESI-BFC Ltd - VP-CFO***CONFERENCE CALL PARTICIPANTS****Scott Levine***JPMorgan Chase & Co. - Analyst***Bill Fisher***Raymond James & Associates - Analyst***Jonathan Ellis***BofA Merrill Lynch - Analyst***Hamzah Mazari***Credit Suisse - Analyst***Michael Hoffman***Wunderlich Securities - Analyst***Al Kaschalk***Wedbush Morgan Securities, Inc. - Analyst***Walter Spracklin***RBC Capital Markets - Analyst***Chris Dowd***Canaccord Genuity - Analyst***Michael Willemse***CIBC World Markets - Analyst***Jason Granger***BMO Capital Markets - Analyst***PRESENTATION**

Operator

Good morning. My name is Sal and I will be your conference operator today. At this time, I would like to welcome everyone to the third-quarter earnings call for IESI-BFC. All lines have been placed on you to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions).

Thank you. I would now like to turn the call over to Ms. Andrea Rudnick, Vice President, Corporate Development and Communications. Ms. Rudnick, you may begin.

Andrea Rudnick - IESI-BFC Ltd - VP-Corporate Development and Communications

Thank you for joining us today. On the call are Keith Carrigan, Vice Chairman and Chief Executive Officer, and Tom Cowee, Vice President and Chief Financial Officer, who will both provide comments on the results for the three and nine months ended September 30, 2010. Also on the call is Mickey Flood, President, who will be available to answer questions during the question-and-answer period, and Joe Quarin, Executive Vice President.

Our remarks and answers to your questions today may contain forward-looking information about future events or the Company's future performance. Although forward-looking statements are based on what management believes to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with these forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. We also do not commit to continue reporting on items or issues that arise either during our presentation or in the discussion that will follow except as required by applicable securities laws. This information by its nature is subject to risks and uncertainties that may cause actual events or results to differ materially.

Please refer to the bottom of yesterday's news release for further information and to our previous filings for a more complete description of the risks affecting our business and our industry.

On this call, we will discuss non-GAAP measures such as adjusted operating income; adjusted EBITDA; adjusted net income; and free cash flow. Please refer to our press release for our definition of such non-GAAP measures.

Management uses non-GAAP measures to evaluate and monitor the ongoing performance of our operations, and other companies may calculate these non-GAAP measures differently. A telephone replay of this conference will be available until midnight on November 10. Details for the replay are available in the news release.

I will now turn over the call to Keith Carrigan, Vice Chairman and Chief Executive Officer.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Thank you, Andrea, and good morning and welcome, everyone. As you are all aware, this was our inaugural quarter as a combined company with Waste Services, and I want to say that we are very pleased with the results.

During our call today, we will discuss our combined performance and will provide you with an update on where we are in our integration and our synergy realization. Let me begin by stating once again that we enjoyed a strong growth in the quarter, based on all of our performance measures including revenue, adjusted EBITDA, adjusted net income, earnings per share, and free cash flow.

Total revenue in the quarter increased 62.5% over Q3 2009 to \$463.3 million. Excluding revenue contributions from our acquisition of WSI totaling \$125.7 million we realized a quarter revenue increase of \$42.2 million or 15.7%.

The increase in quarterly revenues is due to strong organic growth, tuck-in acquisitions and the favorable impact of FX. On a year-to-date basis, we generated total revenues of approximately \$1 billion, which represents an increase of \$253.9 million. On the quarter, organic growth for the Corporation -- which includes both IESI-BFC and WSI's comparable quarter analysis -- amounted to 2% core price and 2.4% core volume.

In the quarter, Canadian segment gross revenues grew by 11.8%. Once again, listeners are reminded that our gross revenue growth has been prepared on a comparable basis as if WSI's operations were combined with our own in both the current and comparable quarters. Gross revenue growth is comprised of core price improvements of 2.7%, a volume increase of 4.2%, higher fuel surcharges of 0.5% and higher recycling pricing of 0.4%. Tuck-in acquisitions also contributed 4% to the comparable quarter over quarter gross revenue growth.

Higher BFI organic growth was offset by lower WSI organic growth. We enjoyed stronger pricing across all of our service lines, volumes were also up across all service lines on a comparable basis. However, the divestiture of certain assets has resulted in a commensurate decline in commercial volumes as we expected. Volume gains in Canada are the result of higher landfill volumes, new contract wins and stronger organic growth.

In our US business, and again including WSI as if they were a part of our business in 2009, quarterly gross revenue increased 12%. This growth included core price improvement of 1.5% in a volume increase of 1.2%. We also realized the fuel surcharge increase of 0.5% in recycling pricing growth of 0.7%. Acquisition growth contributed 8.1% to the quarter-over-quarter gross revenue change.

Looking at our US South segment, the increase in comparable gross revenues is attributable to pricing and volume improvement across all of our service lines. While we experienced slightly lower pricing in our industry service line, volume growth in each of these service offerings was up nicely quarter to quarter and, on a net basis, was a healthy contributor to the increase in this segment's gross revenues.

During the quarter, we completed six tuck-in acquisitions in the US including the \$55 million acquisition of SWDI in southern Louisiana, a transaction that has already proved extremely successful.

Gross revenues in our US Northeast segments increased as well. Although residential and rollout prices was lower marginally, price increased in all other offerings. Volumes also increased in our Northeast segment period over period, with the bulk of the increase coming from our landfills and industrial waste collection.

Our strong revenue growth translated into solid growth and adjusted EBITDA and adjusted net income. Adjusted EBITDA was \$126.3 million in the third quarter of 2010 versus \$79.4 million in the same quarter a year ago, an increase of 59.1%. Excluding the impact of FX, adjusted EBITDA was \$121.5 million or \$42.2 million or a 53.1% improvement. Our adjusted EBITDA margin was 29% in the quarter.

On a year-to-date basis, adjusted EBITDA was \$290.8 million, an increase of \$75.8 million or 35.2%. For the year our adjusted EBITDA margin is 29.1% opposed to 28.8% for the same period one year ago.

For the quarter, adjusted net income increased to \$31.7 million or \$0.26 per diluted share, up from \$19.8 million or \$0.21 per diluted share in the same period one year ago. On a year-to-date basis adjusted net income increased 65.7% to \$73.7 million or \$0.72 per diluted share.

At the end of the third quarter, our fully diluted share count was approximately 121.7 million shares, reflecting approximately 28 million shares we issued to WSI shareholders pursuant to this acquisition.

Free cash flow for the quarter increased 64.3% or \$63.3 million from \$38.5 million in the third quarter last year. This resulted in a free cash flow yield for the quarter of 14.5%, a 20 basis point improvement over the same period one year ago. On a year-to-date basis, free cash flow increased 64.8% to \$149.3 million, resulting in a free cash flow yield of 14.9% compared to 12.1% in the prior year-to-date period.

We attribute did our ability to generate these strong quarterly results to our successful acquisitions, our presence in more densely populated markets, our bottom up management style and our focus on balancing, pricing, and volume growth in each of the markets we serve. These results couldn't be achieved without the right combination of people and assets.

On a year-to-date basis, we are on track to meet the full year guidance we provided last quarter on all measures. Specifically with our year-to-date revenues of approximately \$1 billion we are on track to meet our target of 1.395 billion to \$1.415 billion for the year. Adjusted EBITDA was in excess of \$290 million versus our full year target of \$405 million to \$417 million.

Lastly, year-to-date free cash flow was \$149 million, again on pace for us to meet our guidance target of \$190 million to \$200 million of free cash flow for the full year.

With our third-quarter results in hand, we are confident that we are on course to deliver on our expectations for 2010 and our targets for our merger with WSI. Our integration with WSI is in full swing. During the quarter, we completed our initial training to all WSI field and corporate personnel regarding our strategic management and business processes.

As a result, each WSI operation now uses our internal operation reporting process and metrics. In addition, the move to a unified accounting and financial platform is underway and will be fully completed by year-end.

As of today, we have completed three of the five divestitures that were mandated by the Canadian Competition Bureau in connection with our merger with WSI. After conducting our own very broad auction for these assets, we enjoyed a very good turnout from bidders, and we were able to sell the assets in Calgary, Edmonton, and Ottawa for total proceeds in line with our expectations. We expect to complete the remaining two divestitures in Barrie and Hamilton, Ontario by the year end.

As it relates to our plan merger synergies of \$25 million to \$30 million, we can now tell you that we expect to achieve the very high end of that range. In fact, we will have achieved \$26 million on a run rate basis by year end with the balance to be achieved through 2011. We also expect to capture an additional \$4 million to \$5 million of non-EBITDA-related free cash flow savings.

Lastly, despite the newness of the WSI merger and our M&A department, I would tell you that our M&A department is still open for business, and as you can tell from the previously discussed tuck-in acquisitions that we've completed in this quarter, we expect to continue this process going forward.

Our team has proven once again their ability to review, analyze and execute various transactions and ensure all acquisitions meet with our stringent criteria. And as always, our acquisition pipeline continues to be very robust.

And now, I would like to pass the call to Tom for more details and color on our financial results in the third quarter. Tom?

Tom Cowee - IESI-BFC Ltd - VP-CFO

Thank you, Keith, and good morning, everyone. I'm going to start with a discussion of our performance by segment for the quarter.

In the quarter, revenue in our Canadian segment was approximately \$184.8 million. This was an increase of \$90.1 million or 95.2% over the year ago period. Of the increase, \$15.1 million is attributable to changes in FX, and the balance of \$75 million is from growth, a 79.3% increase over the same period last year.

In our US South segment, revenue was \$162.3 million and an increase of approximately \$73 million or 81.6% over the third quarter last year. And in our US Northeast segment, revenue was \$89.2 million, an increase of approximately \$4.7 million or 5.6% over the third quarter last year.

Since Keith has already reviewed price and volume trends contributing to the revenue growth in each of these segments, I will move on to a discussion of expenses. Operating costs increased in our segments versus the same quarter last year. The increase of \$55.1 million in our Canadian segment operating expenses excludes \$8.7 million related to changes in FX.

The balance relates primarily to our WSI acquisitions as well as other tuck-in acquisitions and higher collected waste volumes in our base business. Higher disposal labor, vehicle operating and maintenance expenses represent the bulk of the comparative increase.

We also incurred higher commodity rebates due to higher comparative commodity pricing. The increase in commodity rebates was most notable in our US Northeast and Canadian segments. Operating costs in our US South segment increased approximately \$43.5 million, again largely due to the WSI, SWDI, other tuck-in acquisitions and volume growth.

This growth quarter over quarter caused increases to cost categories of disposal, labor, vehicle operating costs and maintenance.

In our US Northeast segment, operating costs increased approximately \$4.3 million. This increase is due substantially to additional acquisition and growth volumes.

Now I will turn to SG&A expenses. SG&A expense in total increased approximately \$22.4 million of which \$1.9 million is related to FX. Our Canadian segment increase net of FX is \$5.1 million quarter over quarter. The increase in the quarter was directly related to the WSI and York acquisitions as well as additional growth. In our US South segment, SG&A increased \$6.2 million quarter over quarter, primarily the result of the WSI and SWI acquisitions as well as additional growth. In our US segment, SG&A increased \$600,000 quarter over quarter due in large part to slightly higher write-offs, higher professional fees and normal annual cost increases.

Our corporate costs increased net of FX by \$9.5 million in the quarter. Fair value of stock options transaction costs principally related to the WSI acquisition and additional corporate costs also related to WSI were the primary reasons for the quarter-over-quarter increase.

Separately in the quarter, we also incurred \$3.8 million in restructuring expenses related to our acquisition of WSI, which were primarily costs related to severance and stay bonuses. Amortization expense in the quarter was \$62.8 million, an increase of \$20.8 million from the year ago period. Foreign exchange contributed approximately \$1.9 million to the increase and, as a percentage of revenue, amortization was 14.4% in the quarter, slightly below the 14.5% to 15% we guided to for all of 2010.

Interest expense was approximately \$17.8 million, represented an increase of \$9.9 million compared to the third quarter a year ago. Higher debt levels, primarily resulting from the acquisition of WSI and higher interest rates related to replacing both the US and Canadian facility in tandem with the WSI transaction, was substantially the cause of the increase in quarter.

In addition, we incurred additional interest expense in the quarter of \$1.7 million related to the post closing defeasance of the WSI high yield bond and an approximate \$750,000 write-off of previously incurred financing costs related to the term loan in place in the previous US credit facility.

In the quarter, our income tax expense was \$14 million, up from \$9.5 million in the same quarter a year ago. Our effective tax rate in the quarter was 36.9%, slightly below our full year 2010 guidance range of between 37.5% and 38.5%. Our cash taxes in the quarter were \$11.7 million and we continue to be on track related to our full-year guidance in this area of the range of \$38 million to \$39 million.

Now turning to our capital and landfill purchases, our spending for replacement and growth totaled \$36 million in the quarter. Of this total, replacement capital represented \$25.3 million and growth capital represented \$10.7 million. Both replacement and growth capital in the quarter were in line with our expectations for third quarter and we continue to be on track related to our full-year guidance of \$127 million to \$137 million.

Turning to our balance sheet, at the end of the quarter, long-term debt stood at \$1.123 billion down from the \$1.170 billion we discussed as the Day One debt balance related to the WSI transaction during our second quarter call. As of September, advances under the US facility were \$637.5 million and total letters of credit outstanding amounted to approximately \$139.7 million. Current available capacity under the credit facility is \$172.8 million, and our funded debt to EBITDA in our US credit facility is at 3.05 times.

As of September 30th, advances under the Canadian facility were CAD325 million and total letters of credit outstanding amounted to approximately CAD53.4 million. Available capacity under the revolver is CAD146.6 million. Our Canadian funded debt to EBITDA ratio on September 30 was 1.92 times.

On September 30 as a Companywide funded debt to income ratio prepared on a combined basis and assuming FX parity and including pro forma adjustments related to acquisitions is approximately 2.4 times. We continue with our target long-term leverage goal range of 2.3 to 2.7 times. And again, that will depend on the timing of acquisitions.

In closing, as Keith stated earlier, we are reiterating the outlook we provided on a standalone basis in the second-quarter press release and conference call in July. As a reminder, this outlook for fiscal 2010 includes WSI as well as other acquisitions completed in the first three quarters.

That brings me to the end of my comments and I now ask Keith to provide some closing remarks.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Thank you, Tom. Well, I hope as you can all see, we have adjusted well to our new size. And as such, we intend to maintain our position as a market leader with an unwavering focus on taking a balanced approach to price and volume in each market, making accretive strategic acquisitions that meet our criteria, and generating significant excess free cash flow which we can use to reward investors in a number of ways.

So that wraps up my formal portion of today's remarks and now I will turn the call over to the operator and entertain any questions that you may have. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Scott Levine from JPMorgan.

Scott Levine - JPMorgan Chase & Co. - Analyst

I was hoping you could comment a little bit on the synergies and maybe what gives you the complex at this stage to guide towards the upper end of the previously communicated range and then maybe some additional color on the mix of operating versus overhead versus financing synergies or any other areas where you think you can drive increased value in the business?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Sure. Well, as I have indicated, Scott, we are giving guidance that will have \$26 million of run rate by year-end. So that \$26 million is basically in the hopper right now and, you know, there is a little bit of execution, but it's very much documented information that we see as a definite close by year-end.

Clearly, we have some delayed issues that we know will happen through 2011 that leads us right to the top end of the range that we are giving you. So everything is firmly identified, and I want to tell you they are very much hard synergies that we are talking about here. They are -- we are not really including a lot of soft synergies that we expect to see through 2011, which may lead you to believe that whether you look at it as a synergy or as additional growth next year, we may be in a very good position to realize some additional benefits from the acquisition once we give --. And you'll see that as we the guidance in the next quarter following year end results.

Scott Levine - JPMorgan Chase & Co. - Analyst

Understood. Yes. Turning to the M&A, most of the activity in the South -- if you could provide some color maybe around specifically where the acquisitions were. And then also whether we can look for increased activity or what your designs are on M&A within Florida specifically and how the Florida business is tracking?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes. We had -- we did one small acquisition in Florida. A number of small acquisitions in Texas and we did, of course, the large acquisitions in south Louisiana which was the SWDI acquisition. We -- our existing operations were essentially on the north side of New Orleans and we really needed something to prop us in the south side. So this was an opportunity that we've been looking at for quite a while and once we were able to tie that together, we were able to -- we will recognize through 2011 a very good synergy in terms of disposal rates, because we are now leveraging a much larger volume.

So on top of the fact that this was an acquisition that, clearly, we saw some great opportunities in terms of putting our process in place to increase our revenue per asset hour that is being generated through the existing assets, we also will experience a very good synergy -- not only for the acquisitions disposal but also for our own disposal costs through the region. So this was a pretty strategic acquisition for us and, obviously, a very sizable acquisition for us.

Scott Levine - JPMorgan Chase & Co. - Analyst

Right. Okay. One last one, if I may, as well on volume. You know, we did [out of season] easing growth both -- well, really in Canada, maybe more so in the US. But the comps did look like they got tougher a year ago as well. Could you give us some color maybe with regard to cyclical trends on a sequential basis, whether things are slowing or kind of stable and whether this is really kind of more year-over-year math that is driving some of the sequential easing in year-over-year volume growth in both Canada and in a lesser extent the US, I suppose?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, I think it's -- you know, let me just say, it's -- and I'll give you some color on all of them, but it's all of those plus one more. And that is that we are using, as I indicated WSI's comps in here as well. And when you apply WSI companies, of course when you are looking at the quarter, most of those companies were in integration mode.

So effectively, as they were operating the businesses and as we were integrating them, A, they were not in their normal growth mode because they were concerned with integration. And in addition to that, we did the training through the quarter in terms of our process as well which clearly drives that combination of growth and volume.

So clearly, that had a pretty reasonable impact that, you know, I just kind of give you some rough numbers. That alone probably had slightly over about a 25 basis point impact on price and slightly under 100 basis point impact on volumes. So that is just integrating the WSI year-over-year comps with IESI-BFC.

So obviously -- and we get to this point next year, we will be in a position where the comp will be better because now, of course, all of that volume will have integrated with our volume. We'll have our processes in place and we should see an uptick there.

However, let me say that I think also that we are seeing not a great deal of significant growth in terms of the economy and that's certainly no secret to anyone. We did, fortunately, have some higher pricing in our Northeast landfills. I'm pleased to be able to say that in September we achieved 50% internalization rate in the landfills.

So that's the first step to, as you know, to begin to move price internally through the system. We have not aggressively moved that price because we just achieved the volume in September. But in subsequent quarters you'll see the benefit of that pricing, which will not only increase the pricing in the region but will also increase margins in the region as well for the Northeast. So clearly we are on the right track in terms of the Northeast.

In the South we are not seeing any significant growth, quite frankly. Construction remains relatively flat. So we are not seeing any real movements in pricing and volume in the South at this stage and, clearly, moderate pricing in terms of collection companies. We expect to see continued pricing with our collection companies in the South and hopefully we will see a little bit of a turn up in the economy there and so we can see some pricing movement in our landfills as well.

Does that give you enough color, Scott?

Scott Levine - JPMorgan Chase & Co. - Analyst

It does. Thanks, Keith. I'll leave it there. Thank you.

Operator

Bill Fisher from Raymond James.

Bill Fisher - Raymond James & Associates - Analyst

just on a --, I may have missed it, but just on your US pricing. You had up 1.5%. Was the South better on that metric than the North? Or can you just touch on that?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

You know what, I don't have a breakout between -- I don't think -- between the two. But again, I want to, we'll just highlight again that you have WSI in there as well. So we are comping year over year with WSI as if we owned them in 2009.

So you know again, the whole Corporation -- it impacted the whole Corporation by about 25 basis points. Slightly under 25 basis points in price and 100 basis points in volume. But that's for the whole Corporation.

Bill Fisher - Raymond James & Associates - Analyst

Okay, and let me just change gears on the synergies you mentioned in the higher end run rate by the end of the quarter of Q4. Were there where there synergies realized in Q3 and if so how much did you generate there?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes. You know, we did. It was less than \$2 million as it affected EBITDA in the quarter.

Bill Fisher - Raymond James & Associates - Analyst

Okay. Great. Thank you.

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

Operator

Jonathan Ellis from the Bank of America.

Jonathan Ellis - BofA Merrill Lynch - Analyst

Thank you. Good morning. I just want to revisit the pricing issue again because I'm a little confused. Are you just -- I know you just mentioned that the impact from consulting [WSII] was a little bit less than 25 basis points in terms of the overall corporate reported pricing.

But if I look at what WSII had been reporting in terms of pricing in their businesses in Florida and Canada over the last few quarters, it actually had been higher than what you had been reporting. So I actually would've thought that the blended average would have created a boost not a drag. Maybe there is something, an issue with the math, but can you just help me understand why the blending of the two wouldn't have resulted in higher reported pricing?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes. Because WSI brought it down. That's -- essentially we did not see the organic, the total organic growth in price and volume that we experienced in IESI-BFC on their assets close to our assets. So it created a negative drag that I was explaining to you.

But again, I would say to you that we were merging companies and, clearly, some of these companies as you can well imagine were being divested. We were under order by the Competition Bureau to not merge any of the companies where the investors were taking place. So those companies were operating in and we couldn't manage them, I might say.

So as a result those companies were operating independently. And -- number 1, and so effectively you wouldn't have seen that same -- that same drive to growth metrics essentially. They're clearly, they wouldn't have had the independent incentive in terms of pricing, Jonathan. They wouldn't have had the independent incentive, really, in terms of aggressive volume strategies and they would be more or less in a hold position looking for the integration with our Company.

So I think this is standard. This is what we typically would see where companies kind of go into neutral mutual when we are -- once we acquire them. And until we get our processes in place and we start to manage those companies, there is a period of time where they are operating in neutral.

So I certainly can't comment in terms of results that they achieved prior to us owning them, because we didn't own them. But so, I can't tell you how they did their math, if you would like.

But at the same time, I can tell you that when we looked at them the way we do the math, where we measure change in price, and change in volume, that these were the numbers that we came out with.

Jonathan Ellis - BofA Merrill Lynch - Analyst

Okay, great. That's helpful. And then the other question also on pricing but from a different angle, can you talk a little bit about the influence of CPI in the context of the portion of your revenue base that may be directly tied to escalators and Windows escalators renew over the course of the year? And then just a related question would be in non-escalator markets so in more competitive markets, is lower CPI having any impact on your ability to achieve pricing power?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes -- and that's a great question. As you know, if you look at our distribution of assets, residential represents roughly about 20 odd percent of revenue. And the bulk of that business will be contract business with cities or municipalities.

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

So most of those agreements are CPI-related in terms of pricing year-over-year. If you would -- now if you look at Canada, some of them are local CPIs and some of them are federal or countrywide CPIs that are applied to these contracts. So clearly, if -- I will just look at the Canadian group here for a moment.

CPI in Canada has been running at a higher pace and we are down, I think today, down around the 3% range. So effectively I think as you roll forward into next year, any of that business that is Canadian-related, we'll see a commensurate price increase going forward.

As we know in the US, CPI is certainly been at a lower range, and so I think once again you're going to see a reflective pricing that may be in the range of 1% to 1.5% in those types of contracts going forward. However, if you look at the bulk of our business, it is open market business. It is urban business. We have the ability to price increase in those markets.

Once again, I would say to you that our average customer size is still relatively small. And we feel that we will have the ability to price markets as we move forward into 2011. The environment, I would say in terms of pricing, there is certainly some more tension out there today than we've seen in previous years.

But clearly there's a willingness from everyone, and we are seeing this in the market, to continue price increasing as well. So we expect that we will continue price increasing through 2011 in, again, that 20 odd percent range and we -- you can have a look at our distribution between our Canadian assets and our US assets. But they will be reflected by the various CPIs that are affected both in Canada and the US.

Jonathan Ellis - BofA Merrill Lynch - Analyst

Great. That's helpful. Thanks.

Operator

Hamzah Mazari from Credit Suisse.

Hamzah Mazari - Credit Suisse - Analyst

Aside from synergies, Keith, if we just look at productivity and productivity gains and bringing your model to the WSI assets, how quickly can investors expect those assets to ramp up and be as productive as the legacy assets? Is this more of an end of next year event? And how big could those productivity gains be?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, well, it's -- again, great question. Typically, if I were to put an average on what we're seeing in terms of average productivity to -- of the WSI assets relative to the Canadian assets, commercially, we are seeing that the productivity ranged in the neighborhood of about 70% of the [bar] commercial assets.

So as a result we have begun emerging of companies. We have put our processes into place. So we will be looking at integrating those into our routes, making adjustments with the customers.

A lot of productivity improvements occur by the way at the customer site. So it is not just a matter of rerouting. There is no question that density will cut down or reduce and improve productivity on a road route basis. But at a customer location basis it really becomes part of the process of getting out to the customer, making adjustments. So that is going to occur through the year.

So to be fair about that, I would say to you that by -- certainly by year-end, we will have all of -- 2011, we will have all of their routes up to our standards. And if you wanted to put an average on that, you would probably say midway through the year instead of operating at 70%, they'll be at 85% and then 100% by year end.

So that's probably not a bad estimate. Internally, I would tell you that our goals would probably be a little tougher than that. We'll try to hit some targets ahead of that but, clearly, you know I believe that that's probably a good way of looking at the combination of the business, Hamzah.

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

Hamzah Mazari - Credit Suisse - Analyst

That's very helpful. And then just on pricing again, you guys mentioned the industrial business had much lower price. I assumed that's just the nature of that business. It doesn't seem that --.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

I think I said marginally lower. It wasn't much lower.

Hamzah Mazari - Credit Suisse - Analyst

Okay. And then you talked about sort of volume mix at the landfill as well being responsible for lower price. If you could just help flush that last comment out as well as maybe talk about at what point we can begin to see you raise pricing at the landfill. Is it -- do we need a much bigger volume recovery from here on in? How do we think about that?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Sure. Let me be more specific. Pricing in Canada in the landfills was up. Pricing in the Northeast landfills was up. Pricing was not up in the South landfills. A portion of that was related to C&D where our C&D pricing was down in the south. I expect that you're going to see that on a sequential basis remain where it is until we start to see the economy move in the South so we can move some of those C&D prices up at our C&D landfills. On the MSW landfills, you can expect to see price increases in those landfills as we move forward.

So the net effect of it would be, I would say, moving forward in the South, you would anticipate marginal price increases at the landfill in total in the South. You will continue to see pricing rise in the Northeast and you will continue to see pricing rise in Canada at the landfills.

Hamzah Mazari - Credit Suisse - Analyst

Okay. Great. And just lastly if I may, your guidance seems a bit still. When are you going to update that again?

Tom Cowee - IESI-BFC Ltd - VP-CFO

We will be updating for next year at the end of February when we come out with the results.

Hamzah Mazari - Credit Suisse - Analyst

Thank you.

Operator

Michael Hoffman from Wunderlich Securities.

Michael Hoffman - Wunderlich Securities - Analyst

Thank you very much. If we could follow up on profitability comparisons. You gave us a comparable look at sales to sales as if you owned it a year ago. Can you do the same thing for EBITDA?

Tom Cowee - IESI-BFC Ltd - VP-CFO

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

It gets very difficult, Michael, going forward because obviously we are merging together Canada as we -- and the corporate offices. So you know it's --.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

And it has synergies in there. So I think it would be very difficult to spit them out and say that one synergy was a WSI synergy and another one was a BFI synergy.

Michael Hoffman - Wunderlich Securities - Analyst

Well, I mean not to press the point, but if you only had \$2 million of synergies in the third quarter there really isn't any effect. So the year-over-year comparison in the third quarter would be interesting.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, again, this is very difficult to be able to say that one synergy was related to WSI and another was related to BFI. There's clearly, by the way, synergies just related to size. And we've moved the Corporation up \$500 million in terms of revenue. We've added significant operations in the US and in Canada, a number of operations.

We are going to be looking at -- you know, we are looking at doing some consolidation of corporate activities in the Company. And so as a result, all of those really come together and produce a synergy that the Corporation will achieve. To say that certain of those synergies are related to specifically to WSI assets and some to ISI, I think we -- I think we probably would be misleading people in terms of any guidance we have given in that direction

Michael Hoffman - Wunderlich Securities - Analyst

Okay, and that actually wasn't what I was asking about, but I will cede the point. The comparison of the US North year over year in the third quarter, you are down about 180 basis points in margins on EBITDA.

What was happening there that, in 2010, is less profitable than 2009?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, well, I think two things. In 2009, once again, we had some additional pricing in some of our collection, the roll off pricing was -- has been down. There is no question. We announced that. There was some volume impact in terms of that type of -- terms of industrial as well.

Tom Cowee - IESI-BFC Ltd - VP-CFO

And some special waste volumes.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

And some special waste volumes that we had in '09 that we are not seeing in '10. So you know, those would be the biggest issues.

Michael Hoffman - Wunderlich Securities - Analyst

Okay. And then lastly, you know the talking heads and financial press all want us to believe the Canadian economy is in this downward spiral, but in reality your results would suggest it is not. I get that it can slow from a strength coming out of recession.

How would you characterize the Canadian economy at this juncture and sort of frame your ongoing IRG against that?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Good question, Michael. I'll just give you a little bit of highlights on the Canadian economy or some facts on the Canadian economy. The -- Ontario, the provinces of Ontario and Quebec are probably hit to the greatest degree in terms of the recession. Western Canada is very much commodity-based.

So to give you a sense of, for example, unemployment in the Company -- or in the country is roughly about 8%. The only province that is above 8% is Ontario, which had a much larger manufacturing base. Every other province, including Quebec, is under 8% and in fact the Western provinces are significantly under 8%. So clearly they have not seen -- the Western provinces have not seen as much of the recession as Ontario has principally seen.

So right now, we are seeing GDP growth of roughly about 3% in the country and, again, the majority of that is being -- the impact down is coming from Ontario. So and Ontario in revenues represents roughly about I believe 30 about -- roughly about 30% and I'm giving you a rough number here of our Canadian revenue base.

So in fairness to your question is that we probably will not be seeing as much detail as (technical difficulty) as you would find in across the country analysis or across the country figure here because of our distribution of volume.

So overall, what do we expect from Canada going forward? There is no question that Canada, to a degree, tracks what is occurring in the US, but it also because of the commodities will track what is going in the worldwide economy. So as long as China and the countries that are certainly seeing good tail winds in their economy, if they continue then commodities will do well. Western Canada, we expect, will do well and should exceed GDP growth going forward.

I would suspect the center of the country will mirror in ups and downs (multiple speakers). Okay.

Michael Hoffman - Wunderlich Securities - Analyst

Yes, sorry, I don't know who is interrupting you. I apologize.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, I didn't get it there either.

Michael Hoffman - Wunderlich Securities - Analyst

This is distracting.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Okay, the next question.

Operator

Al Kaschalk from Wedbush Securities.

Al Kaschalk - Wedbush Morgan Securities, Inc. - Analyst

Good morning. Just a couple of follow-up questions given most have been asked. On the Canadian front, then, are you suggesting that you are starting to anniversary some of the tougher comps? Or are we -- are you -- are those still in the forward-looking business from a volume perspective, Keith?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

No. I don't see that the comps in Canada are any tougher. I think as it relates to WSI assets, clearly again, I'll state that I can't comment on the math that was used in terms of growth in volume prior to us taking over. I can tell you what we've seen today, but I can tell you that, once again, that their companies you know in the first quarter were more motivated in integration than they were in growth in volume in the quarter. So next year that I'm sure will be a tail wind in our favor as we integrate that volume going forward.

But overall the Canadian economy has been performing at a pretty good pace. I think the outcome or the government is suggesting next year, we are projecting once again somewhere between 2.5%, 3% GDP growth in Canada next year. So assuming that is occurring, then I would see relatively the same comps or -- certainly, I don't see head wind in those comps going forward.

Al Kaschalk - Wedbush Morgan Securities, Inc. - Analyst

And then on sort of switching to maybe the US, but in general, a little bit overall comment. With the pricing trends that you indicated should we -- should that also imply that we are getting positive volume comps in the forward calendar? Or is there certain markets where you see some head winds but generally the trends are favorable?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, good question. We saw -- in the Northeast we saw industrial volumes turn positive in September. We did not see that in July and August. You know, hopefully, that's a trend and if we begin to see that trend within the industrial sector, then we would expect that or we would like to believe that we will see positive growth coming out of the Northeast as we move forward. So clearly, that's something we are keeping a close eye on to see if that matures through the quarter -- through this quarter.

The South -- we are at this stage again once again other than continued population growth that we are seeing in the South, which will produce more volume in those regions where the population growth is occurring. We are not seeing any real economic movement at this stage.

So our [weight] per yard is up marginally in the South on the year over year basis. That sometimes is an indicator that the economy is moving, but we are not seeing the movement in volume at this stage. So, I would love to give you something positive there, but until we start to see some movement in --, significant movement in any of the lines of business there, I can't really see that at this stage.

Al Kaschalk - Wedbush Morgan Securities, Inc. - Analyst

Thanks a lot. I will hop back in queue.

Operator

Walter Spracklin from RBC Capital Markets.

Walter Spracklin - RBC Capital Markets - Analyst

I just wanted to zero in here on the adjustments you made to the EBITDA particularly on the restructuring, the fair value stock options and the transaction costs here. To me you're sort of adding up here through the year we are up to over \$16 million in those costs now. Just curious, are those -- can you give us a little bit of a sense of a little bit more detail on what those are? And are they coming in-line or above what you had been anticipating when you did the deal?

Tom Cowee - IESI-BFC Ltd - VP-CFO

They are clearly related substantially. I mean, I was going to say very close to substantially related to the WSI transaction. So the transaction costs are accounting, legal, environmental, etc. And I would say that those are pretty well in line with what we talked about last quarter.

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

The restructuring costs post closure, we are going to have some of those restructuring costs with severances and state bonuses. And I don't think we are seeing anything above and beyond what we originally anticipated in that area.

And so we said we were going to be in the \$40 million range. We expect to stay in that range, plus the refinancing of the credit facility obviously is on top of that. But all those costs were planned and from a fair value of stock option standpoint we -- I guess in the grand scheme of things, our stock prices has been trending up over the last 12 months and we are going to have additional costs related to this, Walter, as you know.

Walter Spracklin - RBC Capital Markets - Analyst

That's part of your capital structure, I guess, right? I mean there are those that -- are those necessarily one-time or --?

Tom Cowee - IESI-BFC Ltd - VP-CFO

Well, there is the fair value based on the difference in the price versus the outstanding stock options. So as that price goes up we can expect a P&L cost and if our stock was to go down a little bit, it would go the other direction. So --.

Walter Spracklin - RBC Capital Markets - Analyst

Just curious what's left in that now? I think you said \$40 million, we've done \$16 million. Is that -- or do we have (multiple speakers) --?

Tom Cowee - IESI-BFC Ltd - VP-CFO

At the end of this quarter, we still have about \$10 million of cash cost left to go. Primarily that is an area of severance and state bonus cost.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes, and next year we will have some real estate movement back-and-forth that will probably roll over in the next year, Walter, which could effectively add another -- let me just see here. Probably I am going to say \$6 million to \$8 million. (multiple speakers).

Walter Spracklin - RBC Capital Markets - Analyst

I mean, that's the point. Isn't this part of doing your business? I mean you know --.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

No, when you inherit two buildings in the same market and you only need one building, you divest of one building.

Tom Cowee - IESI-BFC Ltd - VP-CFO

Let's be clear about something else. I mean, prior to this year transaction costs were part of the purchase price and put into ultimately the goodwill and the transaction. Since the beginning of the year, transaction costs are now expensed as period costs as incurred. So every company that is inquisitive will have transaction costs.

Walter Spracklin - RBC Capital Markets - Analyst

So I'm just trying to get, then, the adjusted number for the -- you said \$10 million left. That's all this year, I guess?

Tom Cowee - IESI-BFC Ltd - VP-CFO

Oct 27, 2010 / 12:30PM GMT, BIN.TO - Q3 2010 IESI-BFC Ltd Earnings Conference Call

There's probably some state bonuses severances that could incur into the first quarter next year.

Walter Spracklin - RBC Capital Markets - Analyst

And then another \$6 million to \$8 million in that real estate so we are looking at another \$16 million to \$18 million in sort of restructuring transaction cost kind of stuff?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes. And that is in line with what we announced on the acquisition.

Walter Spracklin - RBC Capital Markets - Analyst

Refinance credit. Is that in there as well?

Tom Cowee - IESI-BFC Ltd - VP-CFO

The refinancing of the credit is done. It was all incurred at the end of the -- well, the transaction closed on July 2. So it happened in the third quarter. So the \$16 million of transaction fees [concurrent], the defeasance costs concurrent and the write off of the term loan amortization all incurred in the third quarter.

Walter Spracklin - RBC Capital Markets - Analyst

That was all in those numbers, though, those adjustments?

Tom Cowee - IESI-BFC Ltd - VP-CFO

That is correct.

Walter Spracklin - RBC Capital Markets - Analyst

All right. That's all my questions. Thanks very much.

Operator

Chris [Dowd] from Canaccord Genuity.

Chris Dowd - Canaccord Genuity - Analyst

I'm just hoping you can give us a bit of an update on your acquisition pipeline since you've closed on six this quarter.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Well, we continue to have a few markets that we have begun roll ups in. And we expect that we are going to continue or look to continue tuck-ins in those markets going forward. You know, I'm certainly -- I can't identify the markets because, as you can well expect, that will drive the price up immediately.

So we do expect to see those moving forward. We still have quite an active pipeline. I will tell you that we are not looking to tuck-in to any of the markets that we are currently integrating companies with WSI. So we don't expect that to occur for quite a while.

But as you know, we did not integrate operations in the US. So we are continuing to look and talk with people in the US and we are quite active as we normally are and there are certain markets in Canada that we are looking at as well.

You know, just to give you a sense, I mean, it always seems that we have a pipeline that we are talking to people that -- that's \$200 million to \$300 million. We never do other than a large acquisition such as WSI. We don't do those in any one quarter. They usually occur sporadically so you know that pipeline still exists today, but I would say to you but that's just a pipeline that moves around, up and down every quarter.

Tom Cowee - IESI-BFC Ltd - VP-CFO

I think it would also be important as you guys all put the model all together. We spent \$71 million excluding WSI, obviously, in the quarter on the acquisition. Three quarters -- 80% of that was on SWDI. So the remaining dollar figures are not the big dollars. So and you won't see a huge impact to our financials going (multiple speakers) tuck-in related.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

That's a good point, Tom. We've -- and when you look at the Canadian operations as well, we are slightly over \$100 million this year and so if you exclude the larger acquisitions, you know, we typically will range anywhere from \$60 million to \$100 million on a year-over-year basis excluding these major acquisitions that we've done. So that's been an average and you might expect that we would probably be in that range as we move forward as well.

Operator

Michael Willemse from CIBC.

Michael Willemse - CIBC World Markets - Analyst

morning. Just going back to the WSI margins. Historically the EBITDA margins in Canada have been quite a bit below BSI's margins. Just wondered if you still see an opportunity for that to -- WSI Canadian margins to come up to your levels?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Yes. Some of that has to do with distribution of the asset base as well. So if you look at the WSI assets, proportionally, they would have a smaller degree of landfill, a larger degree of collection. Collection typically has lower margins attached to it.

However, the bulk of the business was commercial business which, on the collection side, does have the highest end of the collection side. So to answer your question specifically, immediately it would not move to the 36%, 37%. But, as you can see already, WSI was operating at roughly about a 23% EBITDA margin as a corporation. And we reported in the first quarter, 29%.

So we didn't have very much dilution in terms of our EBITDA margin for this quarter on a relative period over period basis for IESI-BFC. So that's how we have been able to exact some synergies in this quarter immediately, and we're able to -- we will be able to do certain things to move margins up.

So I also mentioned you that we, for example, we haven't price increased any of their business in the quarter. Whereas there was clearly some pricing in BFI Canada's model through the quarter. So effectively, you will see that happen which will increase margins on their business going forward.

So but net of that is that you'll see a slight dilution in terms of Canadian EBITDA margins, only because of the distribution of business. But at the same time, we believe that the combination will generate more free cash flow in the Canadian business than it had previously on a percentage of revenue basis.

Michael Willemse - CIBC World Markets - Analyst

Okay. And just a follow-up on the synergies, the synergies that were originally announced, it seemed like they were kind of a rough estimate because you had just closed the transaction. Now that you have had some time to look at the operations, it's good that you can kind of narrow it down to the higher end of the range.

Do you see an opportunity to get even more synergies as over the next few months, the next year?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

I guess the answer to that is yes. We will in the quarter, at the end of the quarter, we will give out guidance for next year. And so, consequently, I mean, when you look at that guidance then you look at that and you will say some of that would be synergies. We might look at it as just some of it is a larger company exacting different strategies and different markets.

So effectively, though, we are not going to change the guidance that I've given you for this quarter. But you will get new guidance as we report the next quarter. And I expect that we will see some additional benefits from the integration of WSI and SWDI and York disposal for that matter on our asset based on a year-over-year basis.

Michael Willemse - CIBC World Markets - Analyst

And then just one more question if I may. Toronto, the city of Toronto, has a new mayor that is contemplating privatizing garbage collection in the city. Would this be an opportunity for BFI Canada? Have you looked at that yet?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Well, I mean without a doubt, there's been study after study conducted. Privatization [reduced] significant cost in terms of waste collection for cities. And I think when we -- we comped the cost for various Canadian cities to the city of Toronto, there will be significant savings if the mayor goes forward on his contracting out practice.

So if that occurs and the mayor continues with his election promise that he will be looking at that, then clearly, we would be an active participant in that process.

Michael Willemse - CIBC World Markets - Analyst

Any sense on the revenue opportunity from that?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

It really depends on -- in terms of what he would decide to contract out and so until we know the scope of that, it is very difficult to put a number attached to it.

Michael Willemse - CIBC World Markets - Analyst

Okay. That makes sense. Thanks very much.

Operator

Jason Granger from BMO Capital Markets.

Jason Granger - BMO Capital Markets - Analyst

Just in follow up to the last question there, municipalities privatizing the garbage management -- waste management process. Are you seeing any noteworthy trends in the US, either increases in municipalities outsourcing the waste management process or conversely push back from municipalities on pricing?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

I think there is one trend that we are seeing and that is that the government is recognizing that there is an opportunity to generate additional income for their general revenues through waste collection. So we are seeing somewhat of a trend in various areas of North America, and I believe we are going to see this going forward in terms of either municipal or city taxation rates to our customers as it relates to waste generation and/or it may occur at the landfill, for example, in the province of Quebec. The province takes a fairly aggressive approach and they have over the last couple of years to pricing of tonnage.

So I believe that you're going to see some of that. We are seeing in more secondary markets that flow control is becoming a little more active. I think we see that more as a secondary market issue opposed to the large urban areas.

But generally speaking, I believe that as we move forward that you are going to see that the government has recognized that there is an opportunity to be able to generate more income to their general revenues through taxation, or some form thereof, going forward. As it relates to further contracting out, this has been occurring since the mid-90s. Capital is becoming more expensive as we create more tighter emission standards in our vehicles. It is increasing the cost of capital assets, which is putting more stress on cities which puts more stress on their ability to bring new equipment in for their own employees. And it really is -- leans more towards contracting out.

So I believe that that practice is going to continue. But you'll see it coupled with some form of taxation to -- that relates to waste generation as well. It will be -- for us, it will typically just be a pass-through to the customer going forward.

Jason Granger - BMO Capital Markets - Analyst

Okay. That's helpful. Thanks for that. Just switching gears here, back to the organic growth rates and I apologize if you already spoke to this. But if we look at the growth rates in Canada and the US and back out to WSI, could you give us a sense of how those numbers came in?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

You know what? I don't think I have the --. While we gave you the growth rates for the various regions, but for example the Northeast did not have any WSI in it.

Jason Granger - BMO Capital Markets - Analyst

That's right. Yes.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

So you are seeing the Northeast standalone. We did have WSI report it in the South and that is the way we are going to continue. I do not have splits with me here on each one of the different areas. And in Canada, I don't have the splits. We really can't give splits today because the numbers will get murkier and murkier as time goes on as we combine companies. So it will be difficult to give you an accurate number otherwise.

Jason Granger - BMO Capital Markets - Analyst

Okay. Maybe looking at this another way on a go-forward basis, your organic growth rates so say in Canada, GDP's up 2.5% to 3%. Would you expect the organic growth to outperform GDP growth, say, in 2011 with the opportunities from WSI, and other pricing and volume growth opportunities out there?

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

The system and the process we have has pretty much consistently outperformed GDP, both in the US and in Canada on a combined volume and price basis. That is our program. We like to take a balanced approach between price and volume.

I expect that once we have done all of our training through the first quarter with all the WSI folks, there will be additional training as time goes on on this, as it relates to this process, and so they will get better and better. As they get better, that will improve organic price and volume growth in those new areas that we are operating in. So we expect -- we like to believe that we will continue the same type of progress that we have made in our Corporation, prior to the WSI acquisition, after we get the WSI people fully integrated up and operating our process in these markets.

So the short answer is yes. We believe we will go back to achieving the same type of organic and price improvement that we've always experienced in the Corporation. Will there be a lag period? Well we saw some lag period in this first quarter already, and I suspect that we'll see a little bit of a lag period in the next quarter.

But, as we get into 2011, we believe that we are looking for results that would be to the norms that we've experienced in the Corporation in the past.

Jason Granger - BMO Capital Markets - Analyst

Okay. Great. Last question, real quick one here. Could you tell us how much cash you had on the balance sheet at the end of the quarter?

Tom Cowee - IESI-BFC Ltd - VP-CFO

Give me a second. \$7.5 million.

Jason Granger - BMO Capital Markets - Analyst

Okay. Very good. That's it for me. Thanks very much.

Keith Carrigan - IESI-BFC Ltd - Vice-Chairman and CEO

Thanks, Jason. And if there are -- it appears that there are no more questions. So ladies and gentlemen, thank you very much for joining us today.

As I mentioned earlier, we are quite excited about the acquisition with WSI. As you can see, it has performed completely to our expectations as it relates to the guidance that we had given earlier. So the progress we have made, both in terms of integrating the companies and exacting the synergies, we feel very comfortable in the announcements that we have made to you today. So we are looking forward to completing the year successfully and moving on through to 2011.

So once again, I want to thank you for joining us today and we'll look forward to speaking with you in future quarters. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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