FINAL TRANSCRIPT

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BIN.TO - Q2 2009 IESI-BFC Ltd. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, thank you for standing by. Welcome to the IESI BFC second quarter results conference call. At this time, all participants are in a listen-only mode. Following the presentation we will conduct a question-and-answer session.

(Operator Instructions).

I would like to remind everyone that this conference call is being recorded today, Wednesday, July 29, 2009, at 5 PM Eastern time. I will now turn the conference over to Ms. Chaya Cooperberg, Director of Investor Relations and Corporate Communications. Please go ahead.

Chaya Cooperberg - *IESI-BFC Ltd. - Director - IR and Corp. Communications*

Thank you and thank you all for joining us today. On the call we have Keith Carrigan, Vice Chairman and Chief Executive Officer; and Tom Cowee, Vice President and Chief Financial Officer, both of whom will be providing comments on the results for the three and six months ended June 30, 2009.

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Also on the call are Mickey Flood, President and Joe Quarin, Executive Vice President and Canadian Chief Operating Officer -- both of whom will be available to answer questions during the question-and-answer period.

Before getting started, let me take a few minutes to remind you that 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 today's news release for further information and to our annual information form for a more complete description of the risks affecting our business and industry.

On the call, we will be discussing non-GAAP measures such as EBITDA and free cash flow. Please refer to our press release for a reconciliation of such non-GAAP measures to the most comparable GAAP measure. 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.

Finally, a telephone replay of this conference will be available until midnight on August 12 and these details are available in the news release. I would now like to turn the call over to Keith Carrigan, Vice Chairman and CEO.

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

Good afternoon and thank you, Chaya, and welcome, everyone, to today's call.

Well this was a significant quarter for our Company. In spite of challenging economic conditions, we achieved an improvement in operating income, operating margins and EBITDA over the same quarter one year ago. That excludes the impact of foreign currency translation.

We are also very pleased that we were able to increase revenue in Canada on a quarter-over-quarter basis. Again, once again, once we hold foreign currency exchange constant. Let me tell you these are no small achievements in the current environment.

In other good news, we secured a 10-year expansion permit for our [Lachenaie Landfill] in the Montral Qubec area. We are looking forward to continuing to serve this market for many years to come.

In addition to these achievements in the quarter, we completed an equity offer in the US and listed our shares on the New York Stock Exchange. Our balance sheet is now positioned among the best in our sector.

So these are exciting developments and we are thrilled with our debut, so to speak, in the US market. Of course we have been operating in the US for quite some time and approximately 2/3 of our business is derived from our US South and US Northeast segments.

Given the composition of our business and in connection with our listing on the New York Stock Exchange and our US public offering, we have elected to start reporting our financial results in US dollars. All of the results that we will be discussing in today's call are in US dollars and are in accordance with US GAAP.

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I will point out that if you are looking at consensus data compiled by Thomson Financial, please be aware that the estimates shown unfortunately are in Canadian not US dollars.

Tom will take you through our financial results in detail, but I would like to start with a discussion of the areas of note in the quarter and our outlook for the balance of the year.

Let me begin by saying that of course we are very pleased with the results of our quarter. Revenue was $253.7 million in the quarter compared with $277.6 million in the quarter one year ago.

When we translate the results of our Canadian operations into US dollars, our strong performance in Canada is diluted by the impact of a weaker Canadian dollar compared with last year. So if we exclude the impact of foreign currency translation on our Canadian results, total revenue in the second quarter was $267.9 million.

Organic growth for the quarter turned positive in Canada and showed signs of stabilization in the US. Organic revenues increased 0.7% in Canada. This was comprised of a 3.3% core price increase, offset by decreases of 1.1% in volume, 1.1% fuel surcharges and 0.4% in commodity prices.

In the US, organic revenues decreased 7.4% consisting of 2.4% core price increase, offset by decreases of 4.4% in volume, 3% in fuel surcharges and 2.4% in commodity prices. The pricing strength that has been noted throughout our industry continues to be available to us.

In Canada and the US, core price gains were offset by a decline in fuel surcharges as a result of lower diesel fuel prices compared with the same period last year. Of course, the lower fuel revenues also translated into better operating margins in the quarter as fuel surcharges are a pass-through cost to our Company.

The decline in recycling commodity prices compared with the same period last year also offset previously mentioned core price gains. While the value of recycling materials such as old corrugated cardboard has been steadily improving over the past several months, it continues to be a challenging comp over the same period last year.

As many of our -- in our industry have noted, it remains a tough volume environment particularly in the areas of rolloff collection and in landfill volumes. At the first sign of the economic downturn, we focused our sales teams on our more resilient lines of business in order to help offset declines in rolloff volumes. We are pleased that these other lines of business have recorded increased collection volumes in each region over the second quarter one year ago.

On a sequential basis, we saw some stabilization of our total volumes. For example in Canada, the volume decline of 1.1% in the second quarter compares with a volume decline of 2% in the first quarter.

In the US South lower volumes relative to the prior year period are due to a decline in construction and demolition waste volumes. In this region, the first signs of weakness in rolloff began appearing in the third quarter last year. However, we expect that we have experienced the worst of the volume declines already.

In the US Northeast, a region that has been hit hard by the economic slowdown, we continued to see lower rolloff collection volumes when compared to the same period last year. However, our commercial collection and landfill volumes are up over the same period. These improvements, along with the recovering recycling prices, are encouraging signs that our US Northeast segment has reached stabilization.

In the second quarter, acquisitions contributed 1.5% to gross revenue in Canada and 2.1% in the US. We acquired the solid waste collection assets of two companies in Canada at a cost of $1.7 million and have quickly assimilated them into our existing businesses.

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We also completed two acquisitions in the US South for $18.4 million, including the purchase of a landfill and related collection assets. This landfill services the Fort Worth, Texas market and allows us to internalize collection volumes in that market that previously went to third-party landfill.

These four acquisitions did extremely well into our existing operations. And we are very pleased with the synergies that they offer.

Continuing with our financial results, operating income was $31.3 million compared with $31.3 million in the second quarter of 2008. When we exclude the impact of foreign currency translation, operating income was $34.3 million -- in fact, an increase of 9.5% over the year ago period.

EBITDA for the quarter was $72.5 million versus $77 million in the comparable quarter. Excluding the impact of foreign currency exchange, EBITDA for the second quarter was $77.5 million -- an increase of 0.7%. As a percentage of revenue EBITDA margins expanded 90 basis points in the quarter to 28.6%.

Free cash flow of $21.5 million compares with $21.5 million in the same period a year ago. Excluding the impact of foreign currency translation, free cash flow in the second quarter of 2009 was $24.2 million. Free cash flow was affected by the timing of gross capital expenditures.

The capital spending related to a new municipal contract as well as landfill equipment purchased for the landfill acquired in Fort Worth. The capital for the municipal contract was in our plan for 2009.

At the start of the year we gave 2009 guidance for growth capital expenditures as well as excess free cash flow -- defined as free cash flow after dividend payments. Previously, we gave guidance for excess free cash flow of $40 million to $50 million assuming parity of the two currencies. The guidance was given prior to our equity offering in June.

Let me say right now that we are maintaining our guidance, of course, less the new dividend payments associated with this aforementioned offering.

Turning back to our income statement, net income in the quarter was $15.1 million or $0.18 per share on a diluted basis of 81.9 million shares. Before the impact of foreign currency translation, net income in the quarter was $16.8 million or $0.20 a share.

So in all, we are very pleased with the quarter which continued to demonstrate the positive impact of our differentiated business model. By choosing to operate in dense urban markets, we have been able to execute our strategies related to price, volume and productivity on our collection routes.

We believe that the relative strength in our markets and the strategies we employ have helped us to reasonably weather the worst of the recession to date.

While the return to normalized economic conditions remains elusive in the US and Canada, we are confident that our differentiated approach in the industry will help us lead our sector in organic growth throughout the balance of the year. And now, with a debt to EBITDA leverage ratio of 2.28 times and our strong outlook for free cash flow generation and over $400 million of capacity in our two credit facilities, we are comfortably positioned to continue to grow through strategic acquisitions while returning value to our shareholders through quarterly dividends.

Let me say we are very excited about the opportunities available to us. And we appreciate the support of our shareholders to share with us this vision.

I would now like to turn the call over to Tom for additional comments on the financial results in the quarter. Tom?

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Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

Thanks, Keith, and good afternoon, everyone. This is our first quarter reporting financial results in US dollars and in accordance with US GAAP.

To aid in this transition we provided by way of press release on July 16, the Company's 2007 annual financial statements 2008 interim financial statements and first quarter 2009 financial statements presented in US GAAP and in US dollars. These financial statements are also available on the Company's website at www.IESI-BSC.com and in the Investor Relations section under the heading, Financial Reports, and are also filed on EDGAR and SEDAR.

At the same time we posted on our Website a presentation that outlines the relevant differences between Canadian and US GAAP that affect our financial statements. I hope that you will find this information helpful and we are certainly available to address any questions you may have regarding the translation of our Canadian results into US dollars or the impact of US GAAP on our results.

Now turning to our results for the second quarter, I will begin my discussion with operating expenses as Keith has already reviewed the revenue detail for the quarter.

Total operating expenses in the quarter were $148.6 million compared to $168.7 million in the same period a year ago. Excluding the decrease in operating expenses of $7.3 million from foreign currency translation of our Canadian costs, operating expenses declined $12.8 million. Lower fuel costs in the quarter, coupled with lower disposal and transportation costs, were the primary reasons for the decline.

Because fuel represents a material cost in our business, the volatility of fuel pricing will continue to be a major focus within our Company as it is throughout our industry. Our goal is to continue to use surcharges to pass through fuel costs changes to our end customers.

However as we have seen recently in certain areas of our business, it is difficult to use fuel surcharges to effectively offset changing fuel prices, most notably in the transfer and disposal portions of our business including the use of third-party truckers. Therefore to help automate some of the variability in our operating results and cash flows in this area, we have entered into fuel hedges in the US. In June we had 6 million annual gallons for two years decreasing by 1/3 to 4 million annual gallons in the third year and decreasing by another 1/3 to 2 million gallons in the fourth year.

The 6 million annual gallons hedged initially represent slightly less than 1/2 of our manual diesel fuel used by our collection fleet and landfill equipment. The average price on the first two years is approximately $2.70 per gallon, including state and federal fuel taxes.

Through the uses of fuel surcharges and fuel hedges, we will continue to actively manage this area of our business to reduce the variability of fuel changes in our business.

SG&A expense was $32.6 million compared to $31.9 million in the same quarter last year. Excluding the decrease in SG&A expenses of $1.9 million from the foreign currency translation of our Canadian cost, SG&A expenses increased $2.6 million in the quarter. Additional sales personnel and an increase in professional fees were the primary increases in this area.

Amortization expense was $41.2 million in the quarter which was $4.5 million less than the same quarter last year with foreign currency exchange representing approximately $2.1 million of the decline. The decline in amortization expense is due principally to lower landfill amortization rates. Changes to the future permitted airspace capacity estimates at our Seneca Meadows landfill was the primary cost reduction in this area.

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Interest expense of $8.8 million represented a decline of $4.2 million compared to the year ago quarter. Excluding the impact of foreign currency exchange on our Canadian interest expense, the decline was $3.9 million. The decline in interest expense in the quarter was principally in our US segment and was due to our application of net proceeds from the share offerings we completed in March and June of this year and lowering borrowing costs.

Looking at our now strengthened balance sheet at the end of the quarter, long-term debt stands at $654.6 million. During the quarter, we closed on the US public offering of 13 million common shares with an overallotment option of 1.95 million common shares. On a fully diluted basis, including our participating preferred shares, we now have 93.4 million shares outstanding.

From the recent equity offering we raised total gross proceeds of $149.5 million and applied the net proceeds of approximately $138.8 million to the repayment of our outstanding borrowings under our US long-term debt facility.

We have two credit facilities in our Company, one in Canada and one in the US and each has a separate set of covenants. In Canada, our funded debt to EBITDA covenant as of June 30, 2009, was 1.9 times versus a maximum funded debt to EBITDA covenant of 2.75 times, and down from 1.96 times at March 31, 2009.

In the US, our funded debt to EBITDA covenant as of June 30, 2009 was 2.64 times versus a maximum funded debt to EBITDA covenant of 4 times and down from 3.44 times at March 31, 2009.

Holding the foreign currency rate between Canada and the US at parity and using just the LTM EBITDA without adjustments for acquisitions, our consolidated debt to EBITDA ratio for the company at June 30, 2009, was 2.28 times. At the end of the quarter we had available capacity of $417 million between the two facilities.

Now turning to landfill -- now turning to capital on landfill purchases. Our spending for replacement and growth total -- capital totaled $39.2 million. Of this total, replacement capital represented $17 million and growth capital represented $22.2 million.

As Keith mentioned in his comments, gross capital spending in the quarter was related to a new municipal contract as well as equipment we purchased for the landfill site required in Fort Worth, Texas. The higher growth spending in the quarter is largely timing and we are still on track with respect to our growth capital guidance for 2009.

That brings me to the end of my prepared comments, but I would like to say again that we are very pleased with our performance in the quarter. It was certainly not an easy operating environment, but we did see encouraging signs in our markets that suggests stabilization of the waste volumes cycle on our sequential basis.

As Keith said earlier, we are truly excited about the opportunities that lie ahead for us and appreciate the support of our shareholders -- both those that have been with us for some time and those that are new to our story. Thank you for listening and now I would like to ask the operator to open the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). [Scott Levine] from JPMorgan.

Scott Levine - *JPMorgan - Analyst*

Good afternoon. I think on the last call you had highlighted some metrics you were seeing in the industrial segment in all three of your regions. And you indicated in your prepared remarks that you're seeing stability and volumes which is encouraging.

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I was hoping you might be able to update more specifically some of those metrics and talk about whether there are market differences, maybe in those metrics in the region in which you operate?

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

Sure. I would be happy to. Do you want to concentrate focus on the rolloff sector or the industrial sector alone?

Scott Levine - *JPMorgan - Analyst*

Yes.

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

In Canada, we are seeing relatively flat volumes on a sequential basis. Let me just define sequential for you as removing, x-ing out the value or the effect of seasonality.

So if I remove the seasonality out of Canada, we are seeing relatively flat volumes. Out of the Northeast, we are seeing a slight downturn in the industrial section on a year-over-year basis unrelated to seasonality of a couple of percentage points.

Most dramatically, we are seeing it in the South where we roughly have about a 7 point reduction on a year-over-year basis x-ing out of course we don't have as much seasonality in the South. Let me say, however, that the South last year experienced a very robust industrial business. And so it was fully expected this year that we would see a reduction.

Scott Levine - *JPMorgan - Analyst*

So the comp having an impact there. And then it sounds like the remainder of the wave stream is really not demonstrating much cyclicality.

Are you seeing any major changes by way of service-level downgrades in any of the three regions and, again, are any of the three kind of sticking out within that regard?

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

I think they are -- you know there are slight downgrade. If I look at our commercial business, however we really focused our attention in commercial and I am pleased to say x-ing out seasonality in every one of our regions, we are positive in volume from last year on a year-over-year basis in the commercial area of business.

So we feel pretty good about that. I will say to you that tonnages are slightly down, moderately down, commercially on a year-over-year basis however.

Scott Levine - *JPMorgan - Analyst*

Turning to -- turning to the balance sheet, so your balance sheet is now toward the lower end of the peer group in terms of leverage. Could you comment a little bit upon what your comfort zone is in terms of levering up going forward? And maybe provide a little bit of a reminder regarding the parameters that guide your acquisition program?

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Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

I will answer the leverage part and I will turn it over to Keith about the acquisitions. As we see it, we see it slightly below 2.3 times. I think our comfort zone is in the 2.5 times range.

Obviously without the impact of FX affecting that number at all, we realize that sometimes acquisitions can be lumpy. We could slightly move above that number for a short period of time. Both of our credit facilities obviously allow for acquisition adjustments related to the historical EBITDA of the companies we buy.

Scott Levine - *JPMorgan - Analyst*

Okay.

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

And in regards once again to the acquisition program is the -- first of all, obviously, the acquisitions we are looking at them to be strategic in terms of the accretive value of the acquisition and within our strategies, after we get the acquisition.

However, at looking at the acquisition, we would like to see that the acquisition will be cash flow positive before synergies. And that is of course, we will normalize out the owners. We will call the cash withdrawals out of the system.

But clearly then, we are looking at today's capital structure to or to evaluate the performance or the cost of capital, the performance ad on a free cash flow basis. And so everything we see we would like to see as free cash flow going into the deal and then obviously we expect to have accretion on those acquisitions going forward immediately.

Scott Levine - *JPMorgan - Analyst*

And one last one as an add-on to that. So with regard to the pipeline, and what you see right now relative to what it was maybe three, six months ago, it was kind of steady and increasing, decreasing, any change in prices paid that you're seeing or any other unique or interesting observation?

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

At this stage we really didn't, never did dislocate our M&A program. We've had discussions moving forward right through the past year. So we do have an existing pipeline. We do have ongoing negotiations and discussions.

I would say to you that the pricing that we are talking about today with people is in line with comps that we are seeing relative to the sector. And I would say that we feel pretty good about the vibrant pipeline that we have currently available.

Scott Levine - *JPMorgan - Analyst*

All right. Thanks. Congratulations.

Operator

Walter Spracklin. RBC Capital Markets.

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Walter Spracklin - *RBC Capital Markets - Analyst*

Thank you very much. Good afternoon. Just on the -- first up for Tom, if you could update us, cash taxes. They came in a little bit lower than sort of where you have been ramping us on what we could expect. Do you have an update on where we could see cash taxes coming in for the year?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

The cash tax number that we previously talked about in the CAD26 million range is still good. It's just the lumpiness of when cash taxes are paid.

Walter Spracklin - *RBC Capital Markets - Analyst*

So 26 million implies you might have a fairly big ramp-up for the next two quarters in a row and call it $6 million or $7 million. Is that -- am I looking at that right?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

Yes.

Walter Spracklin - *RBC Capital Markets - Analyst*

A quarter okay. Okay, you --.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

Yes. One thing I should mention. That 26 was in Canadian dollars. Sorry.

Walter Spracklin - *RBC Capital Markets - Analyst*

And was it on a per -- one for one when you gave that guidance as well?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

No, but I mean I will go back. It was CAD22 million only roughly about $4 million. So I mean you can do the exchange rate.

Walter Spracklin - *RBC Capital Markets - Analyst*

Okay. CAD22 million. $4 million. Okay, on the acquisition, Keith -- perhaps you can talk a bit about what does that effect look like? Is it in good shape? Does it require a big CAPEX, any significant CAPEX requirements there?

And in terms of the price you paid for it, would you say it's in line with what you paid historically or was there a bit of premium involved in there?

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

Actually I would say to you we are very very pleased with the purchase price. This is a long-term landfill asset and typically when one might look at a standalone landfill, one might do a DCF on it which creates a higher value related to a landfill.

It is traditionally in the right market, these larger landfills produce higher free cash flow. So it was a relatively good mul -- it was a very good multiple that would be in line with the industry comps today. So we clearly on a DCF basis got a real bargain on the landfill.

In addition to that, it serves the Fort Worth area and we picked up collection routes along with that acquisition. So right now, it is -- the landfill is over performing our performing expectations. We expect that we in fact will internalize more than we expected to initially.

So -- and we did have to, which was mentioned in the comments as part of the acquisition, we put some growth capital and upgraded the equipment. In fact, we put some new equipment. So we are in very very good shape in the long term at this landfill that will require minimal capital cost over the next couple of years.

Walter Spracklin - *RBC Capital Markets - Analyst*

So on the CAPEX guidance then, when we adjust for that, you had indicated CAPEX would be down $20 million to $30 million compared to '08. Are we still looking at that range?

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

We are, on a one for one dollar basis. We are maintaining that going forward.

Walter Spracklin - *RBC Capital Markets - Analyst*

And Keith, you talked a lot about [densification] and sort of internalization and just wondering if now that you've picked up a little bit on that new acquisition, can you update us as well on the Northeast? I mean you had been talking about densification initiatives into that. Are we going into some easier comps on any progress that you have made recently on those efforts?

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

If you look at the Northeast, once again we've indicated that we have some stabilization. I would like you to know that our landfill volumes in the Northeast are actually up on a year-over-year basis. So clearly we created -- you can see there is some stabilization.

However as part -- we believe as significant improvement opportunities is to better utilize the excess airspace that we have in the Northeast. We would like to do that through strategic acquisitions and at this stage, clearly, we have the balance sheet to go ahead and execute.

And really it will be focused on driving a higher internalization rate which not only creates margin expansion in the landfill, it clearly didn't create margin expansion in the collection assets. Not just in the new collection assets that I'm speaking about, but within the existing collection assets as well.

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Walter Spracklin - *RBC Capital Markets - Analyst*

All right. Last question here. Congratulations on Lachenaie by the way. I guess that is a big weight off of your shoulders.

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

Thank you. We were pretty confident that we would -- this site has been absolutely an outstanding site since 1967. Has had tremendous performance and has been well recognized by the province.

So we were extremely optimistic that it would be granted going forward. But thank you, we appreciate that.

Walter Spracklin - *RBC Capital Markets - Analyst*

Any changes in the terms, though, now that you have this?

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

You know, there's -- I don't know whether this is necessarily a change in the term. But the province of Qubec has a very active volume -- waste volume reduction program that they would like to see incorporated. As does most volumes or most provinces and in fact a lot of the States have the same programs. They are pretty optimistic in terms of long-term waste reduction.

So in the second half of our program, they would like to -- for us to be able to -- with them -- to evaluate the effectiveness of those programs and the effectiveness on what the waste stream, the volume of the waste stream will look like. So we will go back to them in year six and we will enter what the new volumes will be, plus or minus, by the way, for that site for the last few years at the site. Other than that there's no other conditions.

Walter Spracklin - *RBC Capital Markets - Analyst*

Any update on Calgary?

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

I would just say that we are very pleased with the way things are going in Calgary. And I guess the best thing I would say about it is there is no reason for us to be in any immediate hurry to do anything at this stage.

Walter Spracklin - *RBC Capital Markets - Analyst*

All right. That's all my questions. Congratulations on a good quarter.

Operator

Michael [Hoffman] from [Wunderlich] Securities.

Michael Hoffman - *Wunderlich Securities - Analyst*

Good afternoon. Can you -- just working through some numbers. The share count that we should be using for the third quarter?

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

93.4 is our fully diluted outstanding shares.

Michael Hoffman - *Wunderlich Securities - Analyst*

And then the tax rate. You talked about a 35% came a little bit higher. So what are we doing in the second half?

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

I think pretty close to the number where we are at which is 37, I believe.

Michael Hoffman - *Wunderlich Securities - Analyst*

So you use 37 for the remainder of the year? (multiple speakers) That's correct. And then if you do -- thank you very much for all this detail as well.

On page 5 of your release, you give this great regional breakdown and if you're looking at revenue comparisons year-over-year in the US, US North is down [86]. US South down 4. Assuming fuel is kind of equal around the country, you are down 5.6% in the North year-over-year revenues. Can you talk us through what is in that down? Because I'm balancing front end loader business being up and (multiple speakers) volumes being up. I'm trying to balance how to -- so how is the revenue down?

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

Basically when we -- again when we spoke about the US segments being down 2.4% in commodities, almost all of that is in the Northeast and so when you push -- take out the pushes and pulls in the other lines of business, you can look to that commodity price and say that's -- and of course x-ing out the fuel surcharges, you can say that that is the difference in the revenue on a year-over-year basis. (multiple speakers) pricing.

Michael Hoffman - *Wunderlich Securities - Analyst*

If I follow that through, 8 6 less 3 for the fuel, less 2 4 for the commodity, we are still seeing looking at a 3 2 down. So what is the remainder of that 3 2 down?

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

It would be just rolloff. Rolloff volumes and transfer I was talking about earlier.

Michael Hoffman - *Wunderlich Securities - Analyst*

And where that is really going and from a construction standpoint, I mean construction everybody gets. It took a nosedive in the back half of last year and you're carrying that through for the remainder of the year and that is the bulk of it.

So the good news is that MSW is showing some vitality here, but you've got to lug that ball and chain of [C&D] around for the remainder of the year.

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

I don't think it's the remainder of the year. I think when we get into the fourth quarter that the most of it had deteriorated. And so I think we probably have one more quarter that that ball and chain is going to hit everybody in our industry that deals in the industrial commercial sector. I think overall though as a corporation that we are probably doing a little bit better than most.

Michael Hoffman - *Wunderlich Securities - Analyst*

So correspondingly, the other side -- it sounds like there's some good news in the South. Down 4% year over year if you take out fuel which is 3. Then you are down 1%. So there's some pretty good strength there in underlying pricing, underlying volumes. I mean what's --?

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

Yes, once again, we -- other than the industrial sector, we had some very good gains in our commercial sector. And in our residential sector we are up in price and volume in the South. We are significantly up in volume and price commercially in the South.

And in our landfills, we are up a little bit in volume. We are down a little bit in price and again that really relates to the impact of that reduction of C&D.

Michael Hoffman - *Wunderlich Securities - Analyst*

All right, that's great. Then lastly on the guidance, if you wouldn't mind, could you just walk through the free cash flow without an adjustment to dividends so we can figure out -- we can all figure out that -- what is the free cash flow number we should be looking at it before dividends? As a guidance?

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

I'm going to have to sit here -- I don't have the dividend number. Probably around 85 million to 90 million. I just don't know the exact number right at the top of my head of dividends we are going to pay for the year, but it would be that plus and that is why we have just been giving out the excess number. I mean, I could get that, I just don't have it readily available with the exact number.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And then I just wanted to make sure I didn't misunderstand, are you adjusting your capital spending guidance at this point? Is -- did --?

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

No. Absolutely we are maintaining the guidance we issued at the beginning of the year. And certainly as we did through the IPO and through -- after the first quarter as well.

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Michael Hoffman - *Wunderlich Securities - Analyst*

So what is that in US dollars now since all of that was done in Canadian dollars back then?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

That $20 million to $30 million reduction was parity when we gave it out.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

I'm sorry was -- I thought he was talking capital. I was working on the dividend number here. It was $40 million to $50 million excess free cash flow at parity and the $20 million to $30 million reduction in growth capital was at parity. Just to clarify that to everybody. Sorry.

Michael Hoffman - *Wunderlich Securities - Analyst*

Very good. Thank you so much.

Operator

Bill Fisher. Raymond James.

Bill Fisher - *Raymond James & Company - Analyst*

Good afternoon. Just a couple questions. I apologize if you mentioned it earlier. But on the capital you spent on the new contract. Was that in the South and has that started up yet? And if you could give us some color on that?

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

You know it did. It did start off effective July 1 and the capital spend was roughly about $12 million.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

$12 million. And it was in the South.

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

And it was in the South.

Bill Fisher - *Raymond James & Company - Analyst*

Is that something maybe generates like $15 million or so a year of revenue or some sort of --?

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

It is going to be just slightly higher than that.

Bill Fisher - *Raymond James & Company - Analyst*

Great. On the pricing, the strength in pricing you've had, I assume a fair bit of it is on the commercial collection side. Have you seen any more resistance there or is that just -- or is that not even -- is it pretty balanced on residential commercial?

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

Yes, it's pretty interesting. Our guys, our people have been maintaining price even in the rolloff sector where, actually, we are up in price in each one of our regions with our industrial sector as well.

But clearly we have been relatively aggressive with price in our commercial volumes. We have lost some price in our landfill even though volumes are up. There has been some marginal reduction and that really relates to third-party volumes that are moving into the landfills. We are up in our commercial recycling collection as well with price.

Bill Fisher - *Raymond James & Company - Analyst*

And just the last thing, Keith, you mentioned gross or the margins were up in part due to fuel, I think, and the Northeast actually was up a fair bit. Are there any factors or initiatives coming up other than possibly some acquisitions where also you could help push the margin up there like a put or pay contracts rolling off or anything like that?

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

I would say that really at this stage that we would look for the economy to push in the economy. We are clearly seeing some green shoots in the economy. Canada looks like it's -- in a number of our regions we are seeing some strength, some opportunities in Canada.

So I might look for margins to improve slightly in Canada. And if we are correct and we have some stability in the South or even an uptick in the industrial sector, then I believe we will see some margin expansion in the South as well.

Bill Fisher - *Raymond James & Company - Analyst*

Great. Thank you.

Operator

Chris Murray from CIBC World Markets.

Chris Murray - *CIBC World Markets - Analyst*

Good afternoon. I was wondering if you could give me a little more understanding and color on some of the fuel surcharges and some of the trade-offs? You were talking a little bit about between revenue growth and the EBITDA margin expansion? If

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you could maybe touch on a little bit of the timing and the lag effect just so we have a better idea of maybe how those will develop over the next little while?

(multiple speakers)

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

The hedging or --? I'm sorry. (multiple speakers) In terms of the effect of fuel surcharge, obviously we have been placing those in the business for quite a few years now and in the first half of the year versus last half of the year, we have seen decreases in the fuel surcharge area of a little over 1% on our revenue in Canada and in the 2.1% -- sorry, 3% range in the US.

We will continue to do that in the open market areas of our business. Those areas where we can pass on the fuel surcharges. That portion of our business will continue and then as we said, we did put the hedges in in places where it's difficult to pass on fuel surcharges.

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

I would just add to that, first of all, there is a lag on fuel surcharges and we did adjust them up and down directionally, based on where fuel is moving. And secondly, we do not -- we are not able to pass through fuel surcharges to all customers.

So consequently when fuel is moving down, you're actually getting a larger benefit on the expense side than the reduction in the fuel surcharge. Similarly when it's going up, the opposite happens.

The last thing I would mention is that there is a margin impact because when you are increasing your revenue by including fuel surcharges into revenue, and your EBITDA does not change dividing the same EBITDA by a larger revenue number just obviously reduces your margin when the fuel cost was going up a year ago and fuel surcharges (inaudible) could, this year you are getting the opposite effect.

So there is a lag. You are not able to affect all of your customers and then the margin impact.

Chris Murray - *CIBC World Markets - Analyst*

Okay.

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

Just help me again with the second part of your question.

Chris Murray - *CIBC World Markets - Analyst*

What I'm trying to take a look at is, I mean you had some really strong EBITDA margins and part of the explanation you gave us was that's the impact of the fuel surcharges, how pretty much I think what you're talking about there, we are going to see that I guess again in Q3 as we start to lap because --.

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

Yes, I think what we're getting at, I think what you're getting that maybe is the seasonality factor as well. Typically the first quarter is going to be one of our, one of the lowest months particularly in volumes in the Northeast and in Canada. Because just in the winter months there's not as much waste generated and since our landfills are larger landfills, then you'll typically see a larger margin related to more volumes going into landfills.

So you are absolutely correct. In the second quarter, in the third quarter, you should look at the higher margins, typically the first quarter is the weakest quarter as it relates to seasonality in the industry.

Chris Murray - *CIBC World Markets - Analyst*

Okay. Then Tom, talk briefly about with all the accounting activities and stuff like that, there was higher professional fees in your SG&A. What would -- could you think you could quantify maybe what that amount would be and what maybe a normalized run rate would be for, I guess if this was a normal quarter as opposed to the financings and everything else in there?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

It was a one-time event. It was about $1 million.

Chris Murray - *CIBC World Markets - Analyst*

I guess we can adjust for that. Thanks. That's all the questions I had.

Operator

Jason Granger from BMO Capital Markets.

Jason Granger - *BMO Capital Markets - Analyst*

Good afternoon. Couple of questions for you here. First one, I just want to go back to your prepared remarks there, Keith.

You were referring to organic revenue growth expected over a certain period of time. I just want to clarify what that time period was. Was that the back half of '09 or were you talking more towards 2010?

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

That's the back half of '09. Looking at a fairly consistent and stabilized economy as we see it today. Obviously if we see it improve, then we would expect to see our organic growth range and proof as well. We feel very comfortable with the process that we have and with the combination of assets that we should be able to be at the leading company related to organic growth in our industry.

We don't see any reason that that would change through the balance of the year.

Jason Granger - *BMO Capital Markets - Analyst*

And there you are referring to year-over-year growth?

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

I would. I say year-over-year. And by the way you want to expect that the fourth quarter they may even look better because we really start to feel the effects of the recession in the fourth quarter of last year. So when comping to year-over-year we should see a good comp in the fourth quarter.

Jason Granger - *BMO Capital Markets - Analyst*

And just looking sequentially here in Q2 to Q3, can you give us a sense of how are things feeling now? It sounds like we should be seeing some sequential improvement there, margin expansion as well.

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

Once again, we saw some pretty good stabilization and in fact -- take x-ing out to seasonality, we actually saw growth on in our commercial area. I would expect that that will continue going through the third quarter.

Clearly we are looking for some stabilization. In fact we are seeing little hints in the South of improvement in our industrial sector as well. I don't want to jump the gun and say that it's material at this stage, but clearly we are seeing some pickups there.

So you know if that is the case and that's where we have the vulnerable tonnages, then I feel pretty good.

The second issue that I would probably raise is that towards the end of the second quarter, we saw commodity prices begin to move up as well and so, consequently, if there is a trend there and we see those commodity prices then clearly that is going to mitigate about $4 million of price that we had affected on a year-over-year basis in the Northeast. So we could see some clear benefit and that will be all price. So that is going to expand margin as well.

Jason Granger - *BMO Capital Markets - Analyst*

That's helpful. Just shifting gears here to your SG&A, your press release there made reference to higher professional fees being one of the drivers of the upturn in the SOUTH, US South and Northeast. Would that primarily relate to the US equity issue or is there something else going on there?

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

Most of it was business development-related fees there. Once again we had some one-time legal that Tom was speaking with earlier, but basically it's related to business development. I won't go into any more detail other than that, but we expect that that number will continue.

Jason Granger - *BMO Capital Markets - Analyst*

Okay.

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

That it is a good thing if it does. Let me put it that way.

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Jason Granger - *BMO Capital Markets - Analyst*

Okay. And the cost associated with the equity issue and whatnot from professional fees and whatnot could you remind me what those were?

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

As I spoke in my presentation, that number was approximately $10 million. I will look it up here for a second. The fee that we paid, the net equity was --.

Jason Granger - *BMO Capital Markets - Analyst*

Sorry, I'm just thinking more around the professional fees. I was thinking of a number I heard somewhere. $1.5 million, $1.6 million.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

Are you talking about accounting and legal?

Jason Granger - *BMO Capital Markets - Analyst*

Yes.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

I would say less than $1 million. I just don't (multiple speakers).

Jason Granger - *BMO Capital Markets - Analyst*

Really. Okay. So it's (multiple speakers).

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

Most of the difference between gross and net were paid to investment banks obviously.

Jason Granger - *BMO Capital Markets - Analyst*

Yes. Okay. One last area of questions here. Your construction and demolition, can you give us a sense of where that ends up as a percent of your total revenue base?

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

The whole industrial sector -- typically and I believe that we -- it's in the press release. If you look at the industrial sector by both Canadian and the US, it is going to give you a percentage of revenue.

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Jason Granger - *BMO Capital Markets - Analyst*

Yes I saw that.

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

So you can apply a good percentage of that and obviously the downturn has been roughly anywhere depending on the region on a year-over-year basis from about 9 to about 20%, quite frankly. So if I would just take those numbers and just apply a 9% downgrade or 20% -- 9% probably at this stage on a year-over-year basis in the Northeast about 20% -- you would see that that would be the C&D component. And you are going to be pretty close to the number. The rest of it we see as relatively flat continuous.

When you start to see that, the C&D pickup, then you know optimistically we would love to see it go back to where was in at some point in '08 and that will be that range. Anywhere from the 19 -- 9 to 20% of industrial only I am referring to.

Jason Granger - *BMO Capital Markets - Analyst*

Yes okay.

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

Does that help you out?

Jason Granger - *BMO Capital Markets - Analyst*

That does help out. And just to close that off, with fiscal stimulus spending, your exposure to that just trying to understand the timing of when your C&D would benefit. Would that be sort of a three to six months after we see a big uptick in, for instance, infrastructure spending?

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

I think you would have to -- you would really have to look at it by region. Typically we are in regions where, like the South, where there's not as much weather or seasonality attached to it. It is relatively ongoing throughout the year.

Once you get to the Northeast and Canada, then clearly seasonality does play a role. So there is a downturn in construction and demolition. And that's the question that I answered earlier. I relate it to margins and volumes related to seasonality.

Most of that is typically in two areas. Construction and demolition and waste from outside residential collection are the two largest components that affect seasonality.

Jason Granger - *BMO Capital Markets - Analyst*

And so in the US South, if we see an upturn in infrastructure development activity, fiscal stimulus, would you expect your C&D exposed business to benefit from that by a lag of three to six months?

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

Absolutely. Absolutely. And it's usually -- once we are hearing obviously there's a new home development that's now occurring, as soon as those -- the new building begins then typically our industry is on the site. We get an immediate uptick.

So when you see housebuilding improving in the reports, you can expect that we would benefit from that immediately.

Jason Granger - *BMO Capital Markets - Analyst*

That's it for me. Congratulations on the quarter.

Operator

Youssef Abboud from Clarus Securities.

Youssef Abboud - *Clarus Securities - Analyst*

Good afternoon and I think most of my questions have been answered. I have just a couple, just to clarify. If I want to split between the Northeast and the US South in terms of volume change and price change, what would be the numbers?

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

We don't really go into that much detail that's that specific. You can see it, you can kind of track it on our page 6 of our press release and it is going to give you the differences on each one of the regions. And clearly if you -- the previous page is five, you can look at each one of the regions and we try to help you even by the currency -- x-ing out currency. So you can look at the balance there by region as well as far as revenue is concerned.

Tom Cowee - *IESI-BFC Ltd. - VP and CFO*

If you pull our MBNA you will get more clarity in there. There's some details provided in there and it talks about the two different regions Northeast and South. And that will provide a little more data.

Youssef Abboud - *Clarus Securities - Analyst*

Perfect, thanks. My last question is on the EBITDA margin in the South. I know you addressed this issue. The EBITDA margin quarter on quarter Q2 compared to Q1 decline, and this is mainly because of the industrial business, right? And these professional fees as well?

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

Yes, and we increased some residential as well. When you increase some residential so you have volume coming down as well. And so when volume is moving down and we have an increase in residential, the combination of those two even though the free cash flow is improving, it still will push the margin down just slightly.

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Youssef Abboud - *Clarus Securities - Analyst*

So excluding -- so looking forward, we should expect some improvement as volume continuity improves, assuming no major expenses there?

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

That's correct and assuming that fuel remains where it is as well obviously.

Youssef Abboud - *Clarus Securities - Analyst*

Right. That is it for me. Thank you very much.

Operator

Bob Gibson from Octagon Capital.

Bob Gibson - *Octagon Capital - Analyst*

Good afternoon, everybody. Is there any more color you can give us on the assets you acquired especially the Fort Worth Texas stuff? Landfill, how many years you've got left, anything?

Unidentified Company Representative

We have approximately 20 years of life on that landfill. At today's -- and not at today's run rate volumes. (Multiple speakers).

Unidentified Company Representative

And that does not include any expansions.

Bob Gibson - *Octagon Capital - Analyst*

And if we assume that there will be expansion capability attached that site as well?

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

And the work has been assimilated and going very well.

Bob Gibson - *Octagon Capital - Analyst*

Great. And any color on what else you acquired down there?

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

There was commercial collection assets and a small operation in our Missouri area as well.

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Bob Gibson - *Octagon Capital - Analyst*

And did you say you had to buy some equipment to sort of upgrade for this?

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

We did. We bought, we upgraded some landfill equipment and at that stage, it just would produce as immediate cash returns rather than putting excessive maintenance and some rebuilding into the existing equipment that was there. So clearly, it just made a lot more sense on -- from an economic point of view.

We, although this is capital that was applied to the acquisition we applied the capital to growth capital, the new capital to growth capital.

Bob Gibson - *Octagon Capital - Analyst*

And I guess a personal question. The garbage strike here in Toronto, did it affect you at all?

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

I probably shouldn't give you my real feelings. You know, I would say there was no material effect on it. There was some -- we'll call it a push and a pull and I won't go into detail, but it was nothing that was material.

Hopefully, Toronto is one of the last major city bastions that deals with an archaic form of collections that is done by municipal unions. Hopefully what it's done is that it seems to have pushed the fact forward that the private collectors who surround the city of Toronto have never engaged in a strike. Have provided continuous and ongoing services, and more efficient price than the unions in Toronto provide to their members -- and I think it has woken up to people in Toronto that this is an option that the city has.

And I would expect at some point they will take that option seriously.

Bob Gibson - *Octagon Capital - Analyst*

Great. Thank you very much.

Operator

Mister Keith Carrigan, there are no further questions at this time. Please continue.

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

Folks, I want to thank you very much for being at this late hour and joining us today. I want to tell you that our -- I want to thank our people for the great work that they have done in the last quarter. It really has been outstanding.

We had a lot of adjusting to do, relative to the economic conditions and I hope that you folks are as pleased with the results as we are. We continue to be very happy with our position. We are very thrilled that we are in a -- have a balance sheet that we believe is going to be very constructive for us going forward and create great opportunities for future value to our shareholders.

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So once again, thank you for joining us and we will look forward to hearing you and seeing you at our next quarterly call. Thank you very much.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation. Please disconnect your lines.

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