

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2012

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

73-1309529

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

1001 Fannin

Suite 4000

Houston, Texas 77002

(Address of principal executive offices)

(713) 512-6200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at July 20, 2012 was 463,557,830 (excluding treasury shares of 166,724,631).

PART I.

Item 1. Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Millions, Except Share and Par Value Amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 237	\$ 258
Accounts receivable, net of allowance for doubtful accounts of \$34 and \$29, respectively	1,694	1,631
Other receivables	137	144
Parts and supplies	147	153
Deferred income taxes	73	78
Other assets	166	115
Total current assets	2,454	2,379
Property and equipment, net of accumulated depreciation and amortization of \$15,735 and \$15,308 respectively	12,360	12,242
Goodwill	6,237	6,215
Other intangible assets, net	416	457
Investments in unconsolidated entities	656	637
Other assets	568	639
Total assets	<u>\$ 22,691</u>	<u>\$ 22,569</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 720	\$ 838
Accrued liabilities	1,145	1,129
Deferred revenues	469	470
Current portion of long-term debt	853	631
Total current liabilities	3,187	3,068
Long-term debt, less current portion	8,973	9,125
Deferred income taxes	1,879	1,884
Landfill and environmental remediation liabilities	1,437	1,404
Other liabilities	728	698
Total liabilities	16,204	16,179
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued	6	6
Additional paid-in capital	4,540	4,561
Retained earnings	6,771	6,721
Accumulated other comprehensive income	163	172
Treasury stock at cost, 167,283,574 and 169,749,709 shares, respectively	(5,312)	(5,390)
Total Waste Management, Inc. stockholders' equity	6,168	6,070
Noncontrolling interests	319	320
Total equity	6,487	6,390
Total liabilities and equity	<u>\$ 22,691</u>	<u>\$ 22,569</u>

See notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating revenues	<u>\$3,459</u>	<u>\$3,347</u>	<u>\$6,754</u>	<u>\$6,450</u>
Costs and expenses:				
Operating	2,260	2,140	4,426	4,135
Selling, general and administrative	374	382	781	764
Depreciation and amortization	323	319	640	618
Restructuring	3	—	7	—
(Income) expense from divestitures, asset impairments and unusual items	33	—	33	—
	<u>2,993</u>	<u>2,841</u>	<u>5,887</u>	<u>5,517</u>
Income from operations	<u>466</u>	<u>506</u>	<u>867</u>	<u>933</u>
Other income (expense):				
Interest expense	(121)	(119)	(243)	(240)
Interest income	1	2	2	5
Equity in net losses of unconsolidated entities	(11)	(9)	(18)	(13)
Other, net	(1)	1	(2)	2
	<u>(132)</u>	<u>(125)</u>	<u>(261)</u>	<u>(246)</u>
Income before income taxes	334	381	606	687
Provision for income taxes	<u>115</u>	<u>131</u>	<u>204</u>	<u>241</u>
Consolidated net income	219	250	402	446
Less: Net income attributable to noncontrolling interests	11	13	23	23
Net income attributable to Waste Management, Inc.	<u>\$ 208</u>	<u>\$ 237</u>	<u>\$ 379</u>	<u>\$ 423</u>
Basic earnings per common share	<u>\$ 0.45</u>	<u>\$ 0.50</u>	<u>\$ 0.82</u>	<u>\$ 0.89</u>
Diluted earnings per common share	<u>\$ 0.45</u>	<u>\$ 0.50</u>	<u>\$ 0.82</u>	<u>\$ 0.89</u>
Cash dividends declared per common share	<u>\$0.355</u>	<u>\$ 0.34</u>	<u>\$ 0.71</u>	<u>\$ 0.68</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Consolidated net income	<u>\$219</u>	<u>\$250</u>	<u>\$402</u>	<u>\$446</u>
Other comprehensive income (loss), net of taxes:				
Unrealized gains (losses) on derivative instruments:				
Unrealized losses, resulting from changes in fair value, net of tax benefit of \$(10), \$(5), \$(8) and \$(8), respectively	(16)	(8)	(12)	(13)
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of \$(2), \$1, \$0 and \$6, respectively	<u>(4)</u>	<u>1</u>	<u>—</u>	<u>9</u>
	(20)	(7)	(12)	(4)
Unrealized gains (losses) on available-for-sale securities, net of tax expense (benefit) of \$0, \$0, \$1 and \$(1), respectively	(1)	1	1	(1)
Foreign currency translation adjustments	(22)	8	2	36
Change in funded status of post-retirement benefit obligation, net of tax benefit of \$0, \$0, \$0 and \$(1), respectively	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>
Other comprehensive income (loss), net of taxes	(43)	2	(9)	29
Comprehensive income	176	252	393	475
Less: Comprehensive income attributable to noncontrolling interests	11	13	23	23
Comprehensive income attributable to Waste Management, Inc.	<u>\$165</u>	<u>\$239</u>	<u>\$370</u>	<u>\$452</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	\$ 402	\$ 446
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	640	618
Deferred income tax provision	8	39
Interest accretion on landfill liabilities	41	41
Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets	1	3
Provision for bad debts	26	15
Equity-based compensation expense	15	27
Excess tax benefits associated with equity-based transactions	(9)	(7)
Net gain on disposal of assets	(7)	(8)
Effect of (income) expense from divestitures, asset impairments and unusual items	33	—
Equity in net losses of unconsolidated entities, net of dividends	18	13
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(72)	(115)
Other current assets	(26)	(18)
Other assets	92	31
Accounts payable and accrued liabilities	5	25
Deferred revenues and other liabilities	(23)	(32)
Net cash provided by operating activities	<u>1,144</u>	<u>1,078</u>
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(154)	(157)
Capital expenditures	(730)	(596)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	20	13
Net receipts from restricted trust and escrow accounts	17	7
Investments in unconsolidated entities	(40)	(91)
Other	(16)	—
Net cash used in investing activities	<u>(903)</u>	<u>(824)</u>
Cash flows from financing activities:		
New borrowings	312	404
Debt repayments	(271)	(314)
Common stock repurchases	—	(168)
Cash dividends	(329)	(323)
Exercise of common stock options	31	35
Excess tax benefits associated with equity-based transactions	9	7
Distributions paid to noncontrolling interests	(23)	(22)
Other	9	(44)
Net cash used in financing activities	<u>(262)</u>	<u>(425)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>—</u>	<u>3</u>
Decrease in cash and cash equivalents	(21)	(168)
Cash and cash equivalents at beginning of period	258	539
Cash and cash equivalents at end of period	<u>\$ 237</u>	<u>\$ 371</u>

See notes to Condensed Consolidated Financial Statements.

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

	Waste Management, Inc. Stockholders' Equity								
	Total	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests
		Shares	Amounts				Shares	Amounts	
Balance, December 31, 2011	\$6,390	630,282	\$ 6	\$ 4,561	\$ 6,721	\$ 172	(169,750)	\$ (5,390)	\$ 320
Consolidated net income	402	—	—	—	379	—	—	—	23
Other comprehensive income, net of taxes	(9)	—	—	—	—	(9)	—	—	—
Cash dividends declared	(329)	—	—	—	(329)	—	—	—	—
Equity-based compensation transactions, including dividend equivalents, net of taxes	56	—	—	(22)	—	—	2,463	78	—
Distributions paid to noncontrolling interests	(23)	—	—	—	—	—	—	—	(23)
Other	—	—	—	1	—	—	3	—	(1)
Balance, June 30, 2012	<u>\$6,487</u>	<u>630,282</u>	<u>\$ 6</u>	<u>\$ 4,540</u>	<u>\$ 6,771</u>	<u>\$ 163</u>	<u>(167,284)</u>	<u>\$ (5,312)</u>	<u>\$ 319</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

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

We currently manage and evaluate our principal operations through five Groups. Our four geographic operating Groups, which are comprised of our Eastern, Midwest, Southern and Western Groups, provide collection, transfer, disposal (in both solid waste and hazardous waste landfills) and recycling services. Our fifth Group is the Wheelabrator Group, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our five Groups, including the operations of Oakleaf Global Holdings acquired on July 28, 2011 ("Oakleaf"), which are presented in this report as "Other." Additional information related to our segments and to our acquisition of Oakleaf can be found in Note 8 and in Note 9, respectively.

The Condensed Consolidated Financial Statements as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Adoption of New Accounting Pronouncements

Fair Value Measurement — In May 2011, the Financial Accounting Standards Board ("FASB") amended authoritative guidance associated with fair value measurements. This amended guidance defines certain requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles. The amendments to authoritative guidance associated with fair value measurements were effective for the Company on January 1, 2012 and have been applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Comprehensive Income — In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

present the components of other comprehensive income as part of the statement of changes in equity. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The amendments to authoritative guidance associated with comprehensive income were effective for the Company on January 1, 2012 and have been applied retrospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

2. Landfill and Environmental Remediation Liabilities

Liabilities for landfill and environmental remediation costs are presented in the table below (in millions):

	June 30, 2012			December 31, 2011		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	\$ 119	\$ 37	\$ 156	\$ 123	\$ 38	\$ 161
Long-term	1,210	227	1,437	1,169	235	1,404
	<u>\$1,329</u>	<u>\$ 264</u>	<u>\$1,593</u>	<u>\$1,292</u>	<u>\$ 273</u>	<u>\$1,565</u>

The changes to landfill and environmental remediation liabilities for the year ended December 31, 2011 and the six months ended June 30, 2012 are reflected in the table below (in millions):

	Landfill	Environmental Remediation
December 31, 2010	\$1,266	\$ 284
Obligations incurred and capitalized	49	—
Obligations settled	(80)	(37)
Interest accretion	84	6
Revisions in cost estimates and interest rate assumptions	(30)	23
Acquisitions, divestitures and other adjustments	3	(3)
December 31, 2011	1,292	273
Obligations incurred and capitalized	28	—
Obligations settled	(31)	(14)
Interest accretion	41	2
Revisions in cost estimates and interest rate assumptions	1	3
Acquisitions, divestitures and other adjustments	(2)	—
June 30, 2012	<u>\$1,329</u>	<u>\$ 264</u>

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 13 for additional information related to these trusts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Debt

The following table summarizes the major components of debt at each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of June 30, 2012:

	June 30, 2012	December 31, 2011
Revolving credit facility (weighted average interest rate of 1.4% at June 30, 2012 and 1.5% at December 31, 2011)	\$ 300	\$ 150
Letter of credit facilities	—	—
Canadian credit facility (weighted average effective interest rate of 2.0% at June 30, 2012 and 1.8% at December 31, 2011)	112	137
Senior notes and debentures, maturing through 2039, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 6.0% at June 30, 2012 and December 31, 2011)	6,220	6,228
Tax-exempt bonds maturing through 2041, fixed and variable interest rates ranging from 0.2% to 7.4% (weighted average interest rate of 2.9% at June 30, 2012 and 3.1% at December 31, 2011)	2,722	2,771
Tax-exempt project bonds, maturing through 2029, fixed and variable interest rates ranging from 0.2% to 3.4% (weighted average interest rate of 1.4% at June 30, 2012 and 1.3% at December 31, 2011)	86	86
Capital leases and other, maturing through 2055, interest rates up to 12%	386	384
	9,826	9,756
Current portion of long-term debt	853	631
	<u>\$8,973</u>	<u>\$ 9,125</u>

Debt Classification

As of June 30, 2012, we had \$1,004 million of debt maturing within the next twelve months, including \$300 million of borrowings outstanding under the revolving credit facility, U.S. \$112 million of advances outstanding under our Canadian credit facility, \$400 million of 6.375% senior notes that mature in November 2012 and \$143 million of tax-exempt bonds. We have classified \$151 million of these borrowings as long-term as of June 30, 2012 based on our intent and ability to refinance these borrowings on a long-term basis. We also had \$550 million of tax-exempt borrowings subject to repricing within the next twelve months, which were classified as long-term based on our intent and ability to fund any failed remarketings with available capacity under our revolving credit facility.

Revolving Credit and Letter of Credit Facilities

As of June 30, 2012, we had an aggregate committed capacity of \$2.5 billion for letters of credit under various credit facilities. Our \$2.0 billion revolving credit facility expires in May 2016 and is our primary source of letter of credit capacity. Our remaining letter of credit capacity is provided under facilities with terms that extend from June 2013 to June 2015. As of June 30, 2012, we had an aggregate of \$1.5 billion of letters of credit outstanding under various credit facilities. Approximately \$1.0 billion of these letters of credit have been issued under our revolving credit facility.

Debt Borrowings and Repayments

The significant changes in our debt balances from December 31, 2011 to June 30, 2012 are related to the following:

Revolving credit facility — During the six months ended June 30, 2012, we incurred net borrowings of \$150 million under our revolving credit facility for general corporate purposes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Canadian credit facility — We repaid \$27 million of net advances under our Canadian credit facility during the six months ended June 30, 2012.

Tax-exempt bonds — During the six months ended June 30, 2012, we repaid \$66 million of our tax-exempt bonds with available cash upon their scheduled maturities. In addition, we issued \$43 million of new tax-exempt bonds, of which \$25 million was used to repay tax-exempt bonds that matured in May 2012. The remaining \$18 million of tax-exempt bond proceeds was held in a trust account as of June 30, 2012 and was used to repay tax-exempt debt maturing in July 2012.

4. Derivative Instruments and Hedging Activities

The following table summarizes the fair values of derivative instruments recorded in our Condensed Consolidated Balance Sheet (in millions):

<u>Derivatives Designated as Hedging Instruments</u>	<u>Balance Sheet Location</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Electricity commodity contracts	Current other assets	\$ 3	\$ 5
Interest rate contracts	Long-term other assets	—	73
Total derivative assets		<u>\$ 3</u>	<u>\$ 78</u>
Interest rate contracts	Current accrued liabilities	\$ 55	\$ 42
Electricity commodity contracts	Current accrued liabilities	1	—
Interest rate contracts	Long-term accrued liabilities	44	32
Foreign exchange contracts	Long-term accrued liabilities	1	2
Total derivative liabilities		<u>\$ 101</u>	<u>\$ 76</u>

We have not offset fair value amounts recognized for our derivative instruments. For information related to the inputs used to measure our derivative assets and liabilities at fair value, refer to Note 12.

Interest Rate Derivatives

Interest Rate Swaps

We have used interest rate swaps to maintain a portion of our debt obligations at variable market interest rates. As of June 30, 2012 and December 31, 2011, we had approximately \$6.1 billion in fixed-rate senior notes outstanding. As of December 31, 2011, the interest payments on \$1 billion, or 16%, of these senior notes were swapped to variable interest rates to protect the debt against changes in fair value due to changes in benchmark interest rates. In April 2012, we elected to terminate our interest rate swaps and, upon termination, we received \$76 million in cash for their fair value plus accrued interest receivable. The terminated interest rate swaps were associated with senior notes that are scheduled to mature from November 2012 to March 2018. The associated fair value adjustments to long-term debt will be amortized as a reduction to interest expense over the remaining terms of the underlying debt using the effective interest method. The cash proceeds received from our termination of the swaps have been classified as a change in “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.

We designated our interest rate swaps as fair value hedges of our fixed-rate senior notes. Fair value hedge accounting for interest rate swap contracts increased the carrying value of our debt instruments by \$93 million as of June 30, 2012 and \$102 million as of December 31, 2011. Gains or losses on the derivatives as well as the offsetting losses or gains on the hedged items attributable to our interest rate swaps are recognized in current earnings. We include gains and losses on our interest rate swaps as adjustments to interest expense, which is the same financial statement line item where offsetting gains and losses on the related hedged items are recorded.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the fair value adjustments from interest rate swaps and the underlying hedged items on our results of operations (in millions):

<u>Three Months Ended June 30,</u>	<u>Statement of Operations Classification</u>	<u>Gain (Loss) on Swap</u>	<u>Gain (Loss) on Fixed-Rate Debt</u>
2012	Interest expense	\$ 2	\$ (2)
2011	Interest expense	\$ 18	\$ (18)
<u>Six Months Ended June 30,</u>	<u>Statement of Operations Classification</u>	<u>Gain (Loss) on Swap</u>	<u>Gain (Loss) on Fixed-Rate Debt</u>
2012	Interest expense	\$ (1)	\$ 1
2011	Interest expense	\$ 12	\$ (12)

We also recognize the impacts of (i) net periodic settlements of current interest on our active interest rate swaps and (ii) the amortization of previously terminated interest rate swap agreements as adjustments to interest expense. The following table summarizes the impact of periodic settlements of active swap agreements and the impact of terminated swap agreements on our results of operations (in millions):

<u>Decrease to Interest Expense Due to Hedge Accounting for Interest Rate Swaps</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Periodic settlements of active swap agreements(a)	\$ 2	\$ 6	\$ 7	\$ 11
Terminated swap agreements(b)	7	3	9	6
	<u>\$ 9</u>	<u>\$ 9</u>	<u>\$ 16</u>	<u>\$ 17</u>

- (a) These amounts represent the net of our periodic variable-rate interest obligations and the swap counterparties' fixed-rate interest obligations. Our variable-rate obligations are based on a spread from the three-month LIBOR.
- (b) The amortization to interest expense of terminated swap agreements has increased due to our election to terminate our interest rate swap portfolio with a notional amount of \$1 billion in April 2012.

Forward-Starting Interest Rate Swaps

In 2009, we entered into forward-starting interest rate swaps with a total notional value of \$525 million to hedge the risk of changes in semi-annual interest payments due to fluctuations in the forward ten-year LIBOR swap rate for anticipated fixed-rate debt issuances in 2011, 2012 and 2014. We designated these forward-starting interest rate swaps as cash flow hedges.

During the first quarter of 2011, \$150 million of these forward-starting interest rate swaps were terminated contemporaneously with the actual issuance of senior notes in February 2011, and we paid cash of \$9 million to settle the liability related to these swap agreements. The ineffectiveness recognized upon termination of the hedges was immaterial and the related deferred loss continues to be recognized as a component of "Accumulated other comprehensive income." The deferred loss is being amortized as an increase to interest expense over the ten-year life of the senior notes issued in February 2011 using the effective interest method. The incremental interest expense associated with these forward-starting interest rate swaps was immaterial during the three and six months ended June 30, 2012 and 2011 and is expected to be immaterial over the next twelve months.

The forward-starting interest rate swaps outstanding as of June 30, 2012 relate to anticipated debt issuances in November 2012 and March 2014. As of June 30, 2012, the fair value of these active interest rate derivatives was comprised of \$55 million of current liabilities and \$44 million of long-term liabilities compared with \$42 million of current liabilities and \$32 million of long-term liabilities as of December 31, 2011.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recognized pre-tax and after-tax losses of \$30 million and \$18 million, respectively, to other comprehensive income for changes in the fair value of our forward-starting interest rate swaps during the three months ended June 30, 2012 and \$25 million and \$15 million, respectively, during the six months ended June 30, 2012. We recognized pre-tax and after-tax losses of \$11 million and \$7 million, respectively, to other comprehensive income for changes in the fair value of our forward-starting interest rate swaps during the three months ended June 30, 2011 and \$7 million and \$5 million, respectively, during the six months ended June 30, 2011. There was no significant ineffectiveness associated with these hedges during the three and six months ended June 30, 2012 or 2011.

Treasury Rate Locks

In prior years, we used Treasury rate locks to secure underlying interest rates in anticipation of senior note issuances. These cash flow hedging agreements resulted in deferred losses, net of taxes, of \$10 million at June 30, 2012 and \$12 million at December 31, 2011, which are included in "Accumulated other comprehensive income." These deferred losses are reclassified as an increase to interest expense over the life of the related senior note issuances, which extend through 2032. Pre-tax and after-tax amounts of \$2 million and \$1 million, respectively, for the three-month periods ended June 30, 2012 and 2011, and pre-tax and after-tax amounts of \$4 million and \$2 million, respectively, for the six-month periods ended June 30, 2012 and 2011, were reclassified out of accumulated other comprehensive income and into interest expense. As of June 30, 2012, \$4 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next twelve months.

Credit-Risk-Related Contingent Features

Our interest rate derivative instruments have in the past and may in the future contain provisions related to the Company's credit rating. These provisions generally provide that if the Company's credit rating were to fall to specified levels below investment grade, the counterparties have the ability to terminate the derivative agreements, resulting in settlement of all affected transactions. As of June 30, 2012, we did not have any interest rate derivatives outstanding that contained these credit-risk related provisions.

Foreign Currency Derivatives

We use foreign currency exchange rate derivatives to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between Waste Management Holdings, Inc., a wholly-owned subsidiary ("WM Holdings"), and its Canadian subsidiaries. As of June 30, 2012, we had foreign currency forward contracts outstanding for all of the anticipated cash flows associated with a debt arrangement between these wholly-owned subsidiaries. The hedged cash flows as of June 30, 2012 include C\$370 million of principal, which is scheduled for payment on October 31, 2013, and scheduled interest payments of C\$11 million on November 30, 2012 and C\$10 million on October 31, 2013. We designated the forward contracts as cash flow hedges.

Gains or losses on the underlying hedged items attributable to foreign currency exchange risk are recognized in current earnings. The gains or losses on our foreign currency forward contracts that are reclassified out of accumulated other comprehensive income are recognized as adjustments to other income and expense, which is the same financial statement line item where offsetting gains or losses on the related hedged items are recorded. The following table summarizes the pre-tax impacts of our foreign currency cash flow derivatives on our comprehensive income and results of operations (in millions):

<u>Three Months Ended June 30,</u>	<u>Derivative Gain or (Loss) Recognized in OCI (Effective Portion)</u>	<u>Statement of Operations Classification</u>	<u>Derivative Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)</u>
2012	\$ 6	Other income (expense)	\$ 6
2011	\$ (3)	Other income (expense)	\$ (2)

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>Six Months Ended June 30,</u>	<u>Derivative Gain or (Loss) Recognized in OCI (Effective Portion)</u>	<u>Statement of Operations Classification</u>	<u>Derivative Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)</u>
2012	\$ 1	Other income (expense)	\$ (3)
2011	\$ (14)	Other income (expense)	\$ (12)

Amounts reported in other comprehensive income and accumulated other comprehensive income are reported net of tax. Adjustments to other comprehensive income for changes in the fair value of our foreign currency cash flow hedges resulted in the recognition of after-tax gains of \$4 million and less than \$1 million during the three and six months ended June 30, 2012, respectively, and after-tax losses of \$2 million and \$8 million during the three and six months ended June 30, 2011, respectively. After-tax adjustments for the reclassification of gains (losses) from accumulated other comprehensive income into income were \$4 million and \$(2) million during the three and six months ended June 30, 2012, respectively. After-tax adjustments for the reclassification of losses from accumulated other comprehensive income into income were \$1 million and \$7 million during the three and six months ended June 30, 2011, respectively. Ineffectiveness has been included in other income and expense during each of the reported periods. There was no significant ineffectiveness associated with these hedges during the three and six months ended June 30, 2012 or 2011.

Electricity Commodity Derivatives

We use short-term “receive fixed, pay variable” electricity commodity swaps to reduce the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. We hedged 1.55 million megawatt hours, or approximately 50%, of our Wheelabrator Group’s full year 2011 merchant electricity sales, and the swaps executed through June 30, 2012 are expected to hedge about 628,800 megawatt hours, or 19%, of the Wheelabrator Group’s full year 2012 merchant electricity sales. For the three-month periods ended June 30, 2012 and 2011, we hedged 16% and 49%, respectively, of our merchant electricity sales. For the six-month periods ended June 30, 2012 and 2011, we hedged 24% and 51%, respectively, of our merchant electricity sales.

We recognized pre-tax and after-tax losses of \$2 million in other comprehensive income for changes in the fair value of our electricity commodity derivatives during the three months ended June 30, 2012 and pre-tax and after-tax gains of \$4 million and \$3 million, respectively, for the six months ended June 30, 2012. We recognized pre-tax and after-tax adjustments of \$2 million and \$1 million, respectively, for the reclassification of gains from accumulated other comprehensive income into income as a component of “Operating revenues” during the three months ended June 30, 2012 and \$7 million and \$4 million, respectively, for the six months ended June 30, 2012. All financial statement impacts associated with these derivatives were immaterial for the three and six months ended June 30, 2011. There was no significant ineffectiveness associated with these cash flow hedges during the three and six months periods ended June 30, 2012 or 2011.

5. Income Taxes

Our effective income tax rate for the three and six months ended June 30, 2012 was 34.3% and 33.6%, respectively, compared with 34.5% and 35.1% for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it accordingly as facts and circumstances warrant. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2012 was primarily due to the favorable impact of federal and state tax credits and audit settlements, offset in part by the unfavorable impact of state and local income taxes and a Canadian provincial tax rate increase. The differences between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2011 were primarily due to the favorable impact of federal tax credits offset by the unfavorable impact of state and local income taxes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investment in Refined Coal Facility — In January 2011, we acquired a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility in North Dakota. The facility's refinement processes qualify for federal tax credits that are expected to be realized through 2019 in accordance with Section 45 of the Internal Revenue Code. Our initial consideration for this investment consisted of a cash payment of \$48 million.

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results and other reductions in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. During the three and six months ended June 30, 2012, we recognized \$1 million and \$2 million of net losses resulting from our share of the entity's operating losses and \$2 million during both the three and six months ended June 30, 2011. Our tax provision for the three and six months ended June 30, 2012 was reduced by \$5 million and \$8 million, respectively, primarily as a result of tax credits realized from this investment and by \$4 million and \$7 million for the three and six months ended June 30, 2011, respectively. See Note 13 for additional information related to this investment.

Investment in Federal Low-income Housing Tax Credits — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. The entity's low-income housing investments qualify for federal tax credits that are expected to be realized through 2020 in accordance with Section 42 of the Internal Revenue Code.

We account for our investment in this entity using the equity method of accounting. We recognize our share of the entity's results and reductions in the value of our investment in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. The value of our investment decreases as the tax credits are generated and utilized. During the three and six months ended June 30, 2012, we recognized \$6 million and \$12 million of losses relating to our equity investment in this entity, \$2 million and \$3 million of interest expense, and a reduction in our tax provision of \$9 million (including \$6 million of tax credits) and \$16 million (including \$10 million of tax credits), respectively. During the three and six months ended June 30, 2011, we recognized \$6 million and \$12 million of losses relating to our equity investment in this entity, \$2 million and \$4 million of interest expense, and a reduction in our tax provision of \$11 million (including \$7 million of tax credits) and \$18 million (including \$11 million of tax credits), respectively. See Note 13 for additional information related to this investment.

Recent Legislation — The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act, signed into law on December 17, 2010, included an extension of the bonus depreciation allowance through the end of 2012 and increased the amount of qualifying capital expenditures that can be depreciated immediately from 50% to 100%. The 100% depreciation deduction applied to qualifying property placed in service from September 8, 2010 through December 31, 2011. The depreciation deduction for qualifying property placed in service in 2012 has been reduced to 50%. The acceleration of deductions on capital expenditures resulting from the bonus depreciation provisions has no impact on our effective tax rates, but reduces our cash taxes in the periods in which the deductions are taken.

Subject to the finalization of our 2011 income tax return, we estimate that the acceleration of depreciation deductions related to qualifying property additions in 2011 decreased our full year 2011 cash taxes by approximately \$190 million and, based on our current forecast of 2012 capital expenditures, we estimate a reduction in our full year 2012 cash taxes of approximately \$90 million related to qualifying property additions in 2012. However, taking accelerated deductions results in increased cash taxes in subsequent periods when the accelerated deductions for these capital expenditures would have otherwise been taken.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Earnings Per Share

Basic and diluted earnings per share were computed using the following common share data (shares in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Number of common shares outstanding at end of period	463.0	472.3	463.0	472.3
Effect of using weighted average common shares outstanding	0.4	1.9	(0.1)	2.6
Weighted average basic common shares outstanding	463.4	474.2	462.9	474.9
Dilutive effect of equity-based compensation awards and other contingently issuable shares	0.6	1.8	0.8	2.1
Weighted average diluted common shares outstanding	464.0	476.0	463.7	477.0
Potentially issuable shares	17.1	17.3	17.1	17.3
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding	8.3	6.1	8.2	6.1

7. Commitments and Contingencies

Financial Instruments — We have obtained letters of credit, performance bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation, and other obligations. Letters of credit generally are supported by our revolving credit facility and other credit facilities established for that purpose. We obtain surety bonds and insurance policies from an entity in which we have a noncontrolling financial interest. We also obtain insurance from a wholly-owned insurance company, the sole business of which is to issue policies for us. In those instances where our use of financial assurance from entities we own or have financial interests in is not allowed, we have available alternative financial assurance mechanisms.

Management does not expect that any claims against or draws on these instruments would have a material adverse effect on our consolidated financial statements. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations. In an ongoing effort to mitigate risks of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

Insurance — We carry insurance coverage for protection of our assets and operations from certain risks including automobile liability, general liability, real and personal property, workers' compensation, directors' and officers' liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Our exposure, however, could increase if our insurers are unable to meet their commitments on a timely basis.

We have retained a significant portion of the risks related to our automobile, general liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions used. We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Guarantees — In the ordinary course of our business, WM and WM Holdings enter into guarantee agreements associated with their subsidiaries' operations. Additionally, WM and WM Holdings have each guaranteed all of the senior debt of the other entity. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Condensed Consolidated Balance Sheets.

We also have guaranteed the obligations and certain performance requirements of, and provided indemnification to, third parties in the ordinary course of business for both consolidated and unconsolidated entities. Guarantee agreements outstanding as of June 30, 2012 include (i) guarantees of unconsolidated entities' financial obligations maturing through 2020 for maximum future payments of \$20 million; and (ii) agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 20 of our landfills. Our indemnification obligations generally arise from divestitures and provide that we will be responsible for liabilities associated with our operations for events that occurred prior to the sale of the operations. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing, and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.

Environmental Matters — A significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection as we are subject to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by our operations, or for damage caused by conditions that existed before we acquired a site. In addition to remediation activity required by state or local authorities, such liabilities include potentially responsible party, or PRP, investigations. The costs associated with these liabilities can include settlements, certain legal and consultant fees, as well as incremental internal and external costs directly associated with site investigation and clean-up.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the investigation of the extent of environmental impact. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$150 million higher than the \$264 million recorded in the Condensed Consolidated Financial Statements as of June 30, 2012. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

As of June 30, 2012, we had been notified that we are a PRP in connection with 80 locations listed on the EPA's Superfund National Priorities List, or NPL. Of the 80 sites at which claims have been made against us, 16 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to characterize or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

other 64 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

The majority of these proceedings involving NPL sites that we do not own are based on allegations that certain of our subsidiaries (or their predecessors) transported hazardous substances to the sites, often prior to our acquisition of these subsidiaries. CERCLA generally provides for liability for those parties owning, operating, transporting to or disposing at the sites. Proceedings arising under Superfund typically involve numerous waste generators and other waste transportation and disposal companies and seek to allocate or recover costs associated with site investigation and remediation, which costs could be substantial and could have a material adverse effect on our consolidated financial statements. At some of the sites at which we have been identified as a PRP, our liability is well defined as a consequence of a governmental decision and an agreement among liable parties as to the share each will pay for implementing that remedy. At other sites, where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, our future costs are uncertain.

Item 103 of the SEC's Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings, or such proceedings are known to be contemplated, unless we reasonably believe that the matter will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than \$100,000. The following matters are disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of any such matters, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

On April 4, 2006, the EPA issued a Notice of Violation ("NOV") to Waste Management of Hawaii, Inc., an indirect wholly-owned subsidiary of WM, and to the City and County of Honolulu for alleged violations of the federal Clean Air Act, based on alleged failure to submit certain reports and design plans required by the EPA, and the failure to begin and timely complete the installation of a gas collection and control system ("GCCS") for the Waimanalo Gulch Sanitary Landfill on Oahu. The EPA has also indicated that it will seek penalties and injunctive relief as part of the NOV enforcement for elevated landfill temperatures that were recorded after installation of the GCCS. The parties have been in confidential settlement negotiations. Pursuant to an indemnity agreement, any penalty assessed will be paid by the Company, and not by the City and County of Honolulu.

On November 16, 2011, the Regional Water Quality Control Board for the San Francisco Bay Region (the "Water Board") issued an Administrative Civil Liability ("ACL") Complaint to Guadalupe Rubbish Disposal Company, Inc. ("GRDC"), an indirect wholly-owned subsidiary of WM. The ACL Complaint seeks penalties for alleged violations of California's water pollution statutes and GRDC's stormwater permit relating to handling of landfill gas condensate from an on-site landfill gas-to-energy facility owned and operated by a third party. GRDC and the Water Board have agreed to a settlement under which GRDC would pay a penalty of \$167,285 upon final approval by the Water Board. The third party operator has agreed to fully reimburse GRDC for the penalty amount.

On December 22, 2011, the Harris County Attorney in Houston, Texas filed suit against McGinnes Industrial Maintenance Corporation ("MIMC"), WM and Waste Management of Texas, Inc., et al, seeking civil penalties and attorneys' fees for alleged violations of the Texas Water Code and the Texas Health and Safety Code. The County's Original Petition pending in the District Court of Harris County, Texas alleges the mismanagement of certain waste pits that were operated from 1965 to 1966 by MIMC. In 1998, a predecessor of WM acquired the stock of the parent entity of MIMC.

On April 20, 2012, the Pennsylvania Department of Environmental Protection ("PADEP") transmitted a proposed Consent Order and Agreement to Waste Management of Pennsylvania, Inc., an indirect wholly-owned subsidiary of WM, for alleged violations of Pennsylvania solid waste regulations, including certain operations failures, at the Northwest Sanitary Landfill. PADEP has indicated that it is seeking penalties and corrective action.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Additionally, the United States Attorney's Office for the District of Hawaii has commenced an investigation into allegations of violations of the federal Clean Water Act involving discharge of stormwater at the Waimanalo Gulch Sanitary Landfill, located on Oahu, in connection with three major storm events in December 2010 and January 2011. No formal enforcement action has been brought against the Company. While we could potentially be subject to sanctions, including requirements to pay monetary penalties, in connection with a future proceeding that may arise from the investigation, a range of loss cannot currently be estimated because no proceeding has yet commenced and significant factual and legal issues remain. We are cooperating with the U.S. Attorney's Office.

Litigation — In April 2002, certain former participants in the ERISA plans of WM Holdings filed a lawsuit in the U.S. District Court for the District of Columbia in a case entitled *William S. Harris, et al. v. James E. Koenig, et al.* The lawsuit attempts to increase the recovery of a class of ERISA plan participants on behalf of the plan based on allegations related to both the events alleged in, and the settlements relating to, the securities class action against WM Holdings that was settled in 1998, the litigation against WM in Texas that was settled in 2002, as well as the decision to offer WM common stock as an investment option within the plan beginning in 1990, despite alleged knowledge by at least two members of the investment committee of financial misstatement by WM during the relevant time period.

During the second quarter of 2010, the Court dismissed certain claims against individual defendants, including all claims against each of the current members of our Board of Directors. Previously, plaintiffs dismissed all claims related to the settlement of the securities class action against WM that was settled in 2002, and the court certified a limited class of participants who may bring claims on behalf of the plan, but not individually. During the third quarter of 2011, the Court ruled in favor of WM and two former employees dismissing all claims brought by the plaintiffs related to the decision to offer WM stock as an investment option within the plan. The Court still has under consideration additional motions that, if granted, would resolve the few remaining claims against WM and its Committees. However, we currently estimate any impact on the Company's results of operations as a result of any liability to the plaintiffs incurred as a result of this matter will be less than \$1 million, and we do not believe the outcome of this matter could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

In October 2011 and January 2012, we were named as a defendant in a purported class action in the Circuit Court of Sarasota County, Florida and the Circuit Court of Lawrence County Alabama, respectively. These cases primarily pertain to our fuel and environmental charges, generally alleging that such charges were not properly disclosed, were unfair and were contrary to the customer service contracts. The law firm that filed these lawsuits had filed, in 2008, a purported class action against subsidiaries of WM in Bullock County, Alabama, making similar allegations. The prior Alabama suit was removed to federal court, where the federal court ultimately dismissed the plaintiffs' national class action claims. The plaintiffs then elected to dismiss the case without prejudice. We will vigorously defend against these pending lawsuits. Given the inherent uncertainties of litigation, including the early stage of these cases, the unknown size of any potential class, and legal and factual issues in dispute, the outcome of these cases cannot be predicted and a range of loss cannot currently be estimated.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

parties, among other factors. Additionally, we often enter into contractual arrangements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these arrangements is inherently subject to subjective determinations and may result in disputes, including litigation.

As a large company with operations across the United States and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us include commercial, customer, and employment-related claims, including purported class action lawsuits related to our sales and marketing practices and our customer service agreements and purported class actions involving federal and state wage and hour and other laws. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. These actions are in various procedural stages, and some are covered in part by insurance. We currently do not believe that the eventual outcome of any such actions could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

WM's charter and bylaws provide that WM shall indemnify against all liabilities and expenses, and upon request shall advance expenses to, any person who is subject to a pending or threatened proceeding because such person is a director or officer of the Company. Such indemnification is required to the maximum extent permitted under Delaware law. Accordingly, the director or officer must reimburse the Company for any fees advanced if it is later determined that the director or officer was not entitled to have such fees advanced under Delaware law. Additionally, WM has entered into separate indemnification agreements with each of the members of its Board of Directors, and the employment agreements between WM and its Chief Executive Officer, principal financial officer and other executive and senior vice presidents contain a direct contractual obligation of the Company to provide indemnification to the executive. The Company may incur substantial expenses in connection with the fulfillment of its advancement of costs and indemnification obligations in connection with current actions involving former officers of the Company or its subsidiaries or other actions or proceedings that may be brought against its former or current officers, directors and employees.

Multiemployer Defined Benefit Pension Plans — About 20% of our workforce is covered by collective bargaining agreements with various union locals across the United States and Canada. As a result of some of these agreements, certain of our subsidiaries are participating employers in a number of trustee-managed multiemployer, defined benefit pension plans for the affected employees. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. A complete or partial withdrawal from a multiemployer pension plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them.

One of the most significant multiemployer pension plans in which we have participated is the Central States Southeast and Southwest Areas Pension Plan ("Central States Pension Plan"). The Central States Pension Plan is in "critical status" as defined by the Pension Protection Act of 2006. Since 2008, certain of our affiliates have bargained to remove covered employees from the Central States Pension Plan, resulting in a series of withdrawals. In October 2011, employees at the last of our affiliates with active participants in the Central States Pension Plan voted to decertify the union that represented them, withdrawing themselves from the Central States Pension Plan.

We are still negotiating and litigating final resolutions of our withdrawal liability for previous withdrawals, including our recent final withdrawal mentioned above, but we do not believe any additional liability above the charges we have already recognized for such previous withdrawals could be material to the Company's business, financial condition, results of operations or cash flows. We also do not believe that any future withdrawals, individually or in the aggregate, from the multiemployer plans to which we contribute, could have a material adverse effect on our business, financial condition or liquidity. However, such withdrawals could have a material adverse effect on our results of operations for a particular reporting period, depending on the number of

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

employees withdrawn in any future period and the financial condition of the multiemployer plan(s) at the time of such withdrawal(s).

Tax Matters — We are currently in the examination phase of IRS audits for the tax years 2011 and 2012 and expect these audits to be completed within the next six and 18 months, respectively. We participate in the IRS's Compliance Assurance Program, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our year-end tax return. We are also currently undergoing audits by various state and local jurisdictions that date back to 2000. We have finalized audits in Canada through the 2005 tax year and are not currently under audit for any subsequent tax years in Canada. On July 28, 2011, we acquired Oakleaf, which is subject to IRS examinations for years dating back to 2008 and state income tax examinations for years dating back to 2002. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf's pre-acquisition tax liabilities. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse impact on our results of operations or cash flows.

8. Segment and Related Information

We currently manage and evaluate our operations primarily through our Eastern, Midwest, Southern, Western and Wheelabrator Groups. These five Groups are presented below as our reportable segments. Our four geographic operating Groups provide collection, transfer, disposal (in both solid waste and hazardous waste landfills) and recycling services. Our fifth Group is the Wheelabrator Group, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We serve residential, commercial, industrial, and municipal customers throughout North America. In addition, the Oakleaf operations we acquired on July 28, 2011 represent a separate operating segment; however, they do not meet the criteria to be presented as a separate reportable segment. The operations not managed through our five operating Groups, including the Oakleaf operations, are presented herein as "Other." See Note 9 for additional information related to our acquisition of Oakleaf.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized financial information concerning our reportable segments for the three and six months ended June 30 is shown in the following table (in millions):

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Three Months Ended:				
June 30, 2012				
Eastern	\$ 780	\$ (148)	\$ 632	\$ 143
Midwest	822	(136)	686	176
Southern	865	(131)	734	194
Western	836	(126)	710	145
Wheelabrator	206	(32)	174	15
Other	543	(20)	523	(54)
	<u>4,052</u>	<u>(593)</u>	<u>3,459</u>	<u>619</u>
Corporate and Other	—	—	—	(153)
Total	<u>\$ 4,052</u>	<u>\$ (593)</u>	<u>\$ 3,459</u>	<u>\$ 466</u>
June 30, 2011				
Eastern	\$ 800	\$ (136)	\$ 664	\$ 141
Midwest	828	(126)	702	156
Southern	862	(105)	757	193
Western	825	(114)	711	142
Wheelabrator	226	(30)	196	42
Other	330	(13)	317	(21)
	<u>3,871</u>	<u>(524)</u>	<u>3,347</u>	<u>653</u>
Corporate and Other	—	—	—	(147)
Total	<u>\$ 3,871</u>	<u>\$ (524)</u>	<u>\$ 3,347</u>	<u>\$ 506</u>
Six Months Ended:				
June 30, 2012				
Eastern	\$ 1,516	\$ (276)	\$ 1,240	\$ 274
Midwest	1,579	(247)	1,332	329
Southern	1,713	(246)	1,467	387
Western	1,632	(238)	1,394	276
Wheelabrator	413	(62)	351	19
Other	1,012	(42)	970	(72)
	<u>7,865</u>	<u>(1,111)</u>	<u>6,754</u>	<u>1,213</u>
Corporate and Other	—	—	—	(346)
Total	<u>\$ 7,865</u>	<u>\$ (1,111)</u>	<u>\$ 6,754</u>	<u>\$ 867</u>
June 30, 2011				
Eastern	\$ 1,504	\$ (248)	\$ 1,256	\$ 261
Midwest	1,556	(232)	1,324	285
Southern	1,700	(203)	1,497	385
Western	1,615	(222)	1,393	282
Wheelabrator	436	(61)	375	55
Other	623	(18)	605	(35)
	<u>7,434</u>	<u>(984)</u>	<u>6,450</u>	<u>1,233</u>
Corporate and Other	—	—	—	(300)
Total	<u>\$ 7,434</u>	<u>\$ (984)</u>	<u>\$ 6,450</u>	<u>\$ 933</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business and operating segment and by general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues normally tend to be somewhat higher in the summer months, primarily due to the traditional seasonal increase in the volume of construction and demolition waste. Historically, the volumes of industrial and residential waste in certain regions in which we operate have tended to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Additionally, certain destructive weather conditions that tend to occur during the second half of the year, such as hurricanes that most often impact our Southern Group, can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins. Certain weather conditions, including severe winter storms, may result in the temporary suspension of our operations, which can significantly affect the operating results of the affected regions. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

9. Acquisitions

Oakleaf — On July 28, 2011, we paid \$432 million, net of cash received of \$4 million and inclusive of certain adjustments, to acquire Oakleaf. Oakleaf provides outsourced waste and recycling services principally through a nationwide network of third-party haulers. The operations we acquired generated approximately \$580 million in revenues in 2010. We acquired Oakleaf to advance our growth and transformation strategies and increase our national accounts customer base while enhancing our ability to provide comprehensive environmental solutions. For the year ended December 31, 2011, we incurred \$1 million of acquisition-related costs, which were classified as “Selling, general and administrative” expenses. For the three- and six-month periods ended June 30, 2012, Oakleaf recognized revenues of \$147 million and \$295 million, respectively, and net losses of \$4 million for each period. These amounts are included in our Condensed Consolidated Statement of Operations.

The following table shows adjustments since December 31, 2011 to the preliminary allocation of the purchase price of Oakleaf to the assets acquired and liabilities assumed based on their estimated fair value (in millions):

	December 31, 2011	Adjustments	June 30, 2012
Accounts and other receivables	\$ 70	\$ 1	\$ 71
Other current assets	28	—	28
Property and equipment	72	(2)	70
Goodwill	327	1	328
Other intangible assets	87	—	87
Accounts payable	(82)	—	(82)
Accrued liabilities	(48)	—	(48)
Deferred income taxes, net	(10)	1	(9)
Other liabilities	(12)	(1)	(13)
Total purchase price	<u>\$ 432</u>	<u>\$ —</u>	<u>\$ 432</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The purchase price allocation, which is still preliminary and may change, will be finalized in the third quarter of 2012. The following table presents the preliminary allocation of the purchase price to other intangible assets (amounts in millions, except for amortization periods):

	<u>Amount</u>	<u>Weighted Average Amortization Periods (In Years)</u>
Customer relationships	\$ 74	10.0
Vendor relationships	4	10.0
Trademarks	9	15.0
	<u>\$ 87</u>	10.5

Goodwill of \$328 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill is a result of expected synergies from combining the Company's operations with Oakleaf's national accounts customer base and vendor network. The vendor-hauler network expands our partnership with third-party service providers. In many cases we can provide vendor-haulers with opportunities to maintain and increase their business by utilizing our extensive post-collection network. We believe this will generate significant benefits for the Company and for the vendor-haulers. Based on our preliminary valuation, goodwill has been assigned to our four geographic Groups as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is not deductible for income tax purposes.

The following pro forma consolidated results of operations for the three and six months ended June 30, 2011 have been prepared as if the acquisition of Oakleaf occurred at January 1, 2011 (in millions, except per share amounts):

	<u>Three Months Ended June 30, 2011</u>	<u>Six Months Ended June 30, 2011</u>
Operating revenues	\$3,488	\$6,721
Net income attributable to Waste Management, Inc. .	235	417
Basic earnings per common share	0.49	0.88
Diluted earnings per common share	0.49	0.87

Other — During the first half of 2012, we paid \$94 million for interests in oil and gas producing properties through two transactions. The purchase price was allocated primarily to "Property and equipment." Additionally, during the six months ended June 30, 2012 we acquired 16 other businesses related to our collection and recycling operations.

10. Restructuring

Beginning in July 2011, we took steps to streamline our organization as part of our cost savings programs. This reorganization eliminated over 700 employee positions throughout the Company, including approximately 300 open positions. Additionally, subsequent to our acquisition of Oakleaf, we incurred charges in connection with restructuring that organization. During the year ended December 31, 2011, we recognized a total of \$19 million of pre-tax restructuring charges, of which \$18 million were related to employee severance and benefit costs associated with these restructuring efforts. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the first half of 2012, we recognized additional employee severance and benefit restructuring charges of \$7 million, including \$3 million associated with the reorganization of Oakleaf and additional amounts associated with certain other actions taken by the Company primarily in our Southern Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Through June 30, 2012, we have paid approximately \$17 million of the employee severance and benefit costs incurred as a result of these restructuring efforts.

11. (Income) Expense from Divestitures, Asset Impairments and Unusual Items

During the second quarter of 2012, we recognized impairment charges of \$34 million, relating primarily to two facilities in our medical waste services business as a result of projected operating losses at each of these facilities. We wrote down the carrying values of the facilities' operating permits and property, plant and equipment to their estimated fair values. Our medical waste services business is included in our "Other" operations in Note 8.

In addition, the negative effect on our revenues of the continued deterioration of electricity commodity prices, coupled with our continued increased exposure to market prices as a result of the expiration of several long-term, fixed-rate electricity commodity contracts at our waste-to-energy and independent power facilities, and the expiration of several long-term disposal contracts at above-market rates indicated that the fair value of our Wheelabrator Group could potentially be less than its carrying amount. As a result, in the second quarter of 2012, we performed an interim impairment analysis of our Wheelabrator Group's goodwill balance, which was \$788 million as of June 30, 2012.

We performed an interim quantitative assessment using both an income and a market approach, which indicated that the estimated fair value of our Wheelabrator Group exceeded its carrying value; however, the amount by which the fair value exceeded the carrying value declined significantly from the most recent annual impairment test performed at October 1, 2011. At that time, our Wheelabrator Group's estimated fair value exceeded its carrying value by approximately 30%, as compared with slightly greater than 10% as of the interim impairment test performed this quarter. If market prices for electricity worsen or do not recover as we have projected, if our disposal rates continue to decline, or if our costs and capital expenditures exceed our forecasts, the estimated fair value of our Wheelabrator Group could decrease further and potentially result in an impairment charge in a future period.

12. Fair Value Measurements*Assets and Liabilities Accounted for at Fair Value*

Our assets and liabilities that are measured at fair value on a recurring basis include the following (in millions):

	Total	Fair Value Measurements at June 30, 2012 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$ 112	\$ 112	\$ —	\$ —
Available-for-sale securities	162	137	—	25
Electricity commodity derivatives	3	—	3	—
Total assets	\$277	\$ 249	\$ 3	\$ 25
Liabilities:				
Interest rate derivatives	\$ 99	\$ —	\$ 99	\$ —
Foreign currency derivatives	1	—	1	—
Electricity commodity derivatives	1	—	1	—
Total liabilities	\$101	\$ —	\$ 101	\$ —

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Total	Fair Value Measurements at December 31, 2011 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$120	\$ 120	\$ —	\$ —
Available-for-sale securities	179	154	—	25
Interest rate derivatives	73	—	73	—
Electricity commodity derivatives	5	—	5	—
Total assets	<u>\$377</u>	<u>\$ 274</u>	<u>\$ 78</u>	<u>\$ 25</u>
Liabilities:				
Interest rate derivatives	\$ 74	\$ —	\$ 74	\$ —
Foreign currency derivatives	2	—	2	—
Total liabilities	<u>\$ 76</u>	<u>\$ —</u>	<u>\$ 76</u>	<u>\$ —</u>

Fair Value of Available-for-sale Securities — The available-for-sale securities measured using Level 1 inputs are primarily included in long-term “Other assets” in our Condensed Consolidated Balance Sheets. The fair value of available-for-sale securities measured using Level 3 inputs consists of redeemable preferred stock that was acquired in November 2011 and is included in “Investments in unconsolidated entities” in our Condensed Consolidated Balance Sheets. The redeemable preferred stock is recorded at fair value based on other third-party investors’ recent or pending transactions in these securities, which are considered to be the best evidence of fair value currently available. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public comparables.

Fair Value of Debt

At June 30, 2012 and December 31, 2011, the carrying value of our debt was approximately \$9.8 billion. The carrying value of our debt includes adjustments associated with fair value hedge accounting related to our interest rate swaps as discussed in Note 4.

The estimated fair value of our debt was approximately \$11.1 billion at June 30, 2012 and approximately \$10.8 billion at December 31, 2011. The estimated fair value of our senior notes is based on quoted market prices. The carrying value of remarketable debt and borrowings under our revolving credit facilities approximates fair value due to the short-term nature of the interest rates. The fair value of our other debt is estimated using discounted cash flow analysis, based on current market rates for similar types of instruments.

Although we have determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of June 30, 2012 and December 31, 2011. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

13. Variable Interest Entities

Following is a description of our financial interests in variable interest entities that we consider significant, including (i) those for which we have determined that we are the primary beneficiary of the entity and, therefore, have consolidated the entities into our financial statements; and (ii) those that represent a significant interest in an unconsolidated entity.

Consolidated Variable Interest Entities

Waste-to-Energy LLCs — In June 2000, two limited liability companies were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we lease, operate and maintain. We own a 0.5% interest in one of the LLCs (“LLC I”) and a 0.25% interest in the second LLC (“LLC II”). John Hancock Life Insurance Company (“Hancock”) owns 99.5% of LLC I and 99.75% of LLC II is owned by LLC I and the CIT Group (“CIT”). In 2000, Hancock and CIT made an initial investment of \$167 million in the LLCs, which was used to purchase the three waste-to-energy facilities and assume the seller’s indebtedness. Under the LLC agreements, the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all members of the LLCs; (ii) December 31, 2063; (iii) a court’s dissolution of the LLCs; or (iv) the LLCs ceasing to own any interest in the waste-to-energy facilities.

Income, losses and cash flows of the LLCs are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, we will receive 80% of the earnings of each of the LLCs and Hancock and CIT will be allocated the remaining 20% proportionate to their respective equity interests. All capital allocations made through June 30, 2012 have been based on initial capital account balances as the target returns have not yet been achieved.

Our obligations associated with our interests in the LLCs are primarily related to the lease of the facilities. In addition to our minimum lease payment obligations, we are required to make cash payments to the LLCs for differences between fair market rents and our minimum lease payments. These payments are subject to adjustment based on factors that include the fair market value of rents for the facilities and lease payments made through the re-measurement dates. In addition, we may also be required under certain circumstances to make capital contributions to the LLCs based on differences between the fair market value of the facilities and defined termination values as provided for in the underlying lease agreements, although we believe the likelihood of the occurrence of these circumstances is remote.

We have determined that we are the primary beneficiary of the LLCs and consolidate these entities in our Consolidated Financial Statements because (i) all of the equity owners of the LLCs are considered related parties for purposes of applying this accounting guidance; (ii) the equity owners share power over the significant activities of the LLCs; and (iii) we are the entity within the related party group whose activities are most closely associated with the LLCs.

As of June 30, 2012 and December 31, 2011, our Condensed Consolidated Balance Sheets included \$302 million and \$308 million, respectively, of net property and equipment associated with the LLCs’ waste-to-energy facilities and \$248 million and \$246 million, respectively, in noncontrolling interests associated with Hancock’s and CIT’s interests in the LLCs. As of June 30, 2012 and December 31, 2011, all debt obligations of the LLCs had been paid in full and, therefore, the LLCs had no liabilities. We recognized reductions in earnings of \$12 million and \$25 million for the three and six months ended June 30, 2012 and 2011, respectively, for Hancock’s and CIT’s noncontrolling interests in the LLCs’ earnings. The LLCs’ earnings relate to the rental income generated from leasing the facilities to our subsidiaries, reduced by depreciation expense. The LLCs’ rental income is eliminated in WM’s consolidation.

Significant Unconsolidated Variable Interest Entities

Investment in Waste-to-Energy and Recycling LLC — In the first quarter of 2012, we established a limited liability company (the “LLC”) along with our joint venture partner, a commercial entity in the waste management industry, to develop, construct, operate and maintain a waste-to-energy and recycling facility in

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

England. We own a 50% interest in this joint venture. The total cost of constructing this facility is expected to be £200 million, or \$314 million based on the exchange rate as of June 30, 2012. The LLC will be funded primarily through loans from the joint venture partners and loans under the LLC's credit facility agreements with third-party financial institutions. The funds loaned under the credit facility agreements will be used for the development and construction of the facility. We are committed to provide up to £57 million, or \$90 million based on the exchange rate as of June 30, 2012, of funding to the LLC. Our actual commitment may be more or less depending on the actual cost of the facility. Through June 30, 2012, we had funded approximately £7 million, or \$11 million, through loans and less than \$1 million through equity contributions. These amounts are included in our Condensed Consolidated Balance Sheet as long-term "Other assets" and "Investments in unconsolidated entities," respectively. We also have guaranteed the performance of certain management services for the project for which our maximum exposure under the guarantee is not material.

In addition, a wholly-owned subsidiary of the Company will be responsible for constructing the waste-to-energy facility for the LLC under a fixed-price construction contract. Once the facility is constructed, a majority-owned subsidiary of the Company will be responsible for operating and maintaining the facility for the LLC under a substantially fixed-price operating and maintenance contract. Under the operating and maintenance contract, we have guaranteed our ability to operate this facility at certain performance levels that we believe are within our control to achieve. We also will be jointly responsible, along with our LLC joint venture partner, for the performance of sales and marketing services for the LLC through a 50%-owned and unconsolidated entity. The fixed-price components of the above-mentioned contracts were established based on estimates of expected construction, operation and maintenance costs. However, we are subject to variation in our expected profits or potential losses if the actual costs differ from the costs established in the contracts. Our maximum exposure to loss under these contracts cannot be quantified.

We determined that we are not the primary beneficiary of the LLC as all decision-making responsibility is shared jointly with our joint venture partner. As such, we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate this entity.

Investment in Refined Coal Facility — In January 2011, we acquired a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility. Along with the other equity investor, we support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our initial consideration for this investment consisted of a cash payment of \$48 million. As of June 30, 2012 and December 31, 2011, our investment balance was \$30 million and \$35 million, respectively, representing our current maximum pre-tax exposure to loss. Under the terms and conditions of the transaction, we do not believe that we have any material exposure to loss. Future contributions will commence once certain levels of tax credits have been generated and will continue through the expiration of the tax credits under Section 45 of the Internal Revenue Code, which occurs at the end of 2019. We are only obligated to make future contributions to the extent tax credits are generated. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

Investment in Federal Low-income Housing Tax Credits — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. We support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our target return on the investment is guaranteed and, therefore, we do not believe that we have any material exposure to loss. Our consideration for this investment totaled \$221 million, which was comprised of a \$215 million note payable and an initial cash payment of \$6 million. As of June 30, 2012 and December 31, 2011, our investment balance was \$166 million and \$178 million, respectively, and our debt balance was \$164 million and \$176 million, respectively. We determined that we are not the primary beneficiary of this entity as we do not have the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

Trusts for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations — We have significant financial interests in trust funds that were created to settle certain of our final capping, closure, post-closure or environmental remediation obligations. Generally, we are the sole beneficiary of these restricted balances; however, certain of the funds have been established for the benefit of both the Company and the host community in which we operate. We have determined that these trust funds are variable interest entities; however, we are not the primary beneficiary of these entities because either (i) we do not have the power to direct the significant activities of the trusts or (ii) power over the trusts' significant activities is shared.

We account for the trusts for which we are the sole beneficiary as long-term "Other assets" in our Condensed Consolidated Balance Sheet. These trusts had a fair value of \$120 million at June 30, 2012 and \$123 million at December 31, 2011. Our interests in the trusts that have been established for the benefit of both the Company and the host community in which we operate are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in "Other receivables," "Investments in unconsolidated entities" and long-term "Other assets" in our Condensed Consolidated Balance Sheet, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$109 million as of June 30, 2012 and \$107 million as of December 31, 2011. We reflect our interests in the unrealized gains and losses on available-for-sale securities held by these trusts as a component of "Accumulated other comprehensive income."

As the party with primary responsibility to fund the related final capping, closure, post-closure or environmental remediation activities, we are exposed to risk of loss as a result of potential changes in the fair value of the assets of the trust. The fair value of trust assets can fluctuate due to (i) changes in the market value of the investments held by the trusts and (ii) credit risk associated with trust receivables. Although we are exposed to changes in the fair value of the trust assets, we currently expect the trust funds to continue to meet the statutory requirements for which they were established.

14. Condensed Consolidating Financial Statements

WM Holdings has fully and unconditionally guaranteed all of WM's senior indebtedness. WM has fully and unconditionally guaranteed all of WM Holdings' senior indebtedness. None of WM's other subsidiaries have guaranteed any of WM's or WM Holdings' debt. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information (in millions):

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2012
(Unaudited)

	<u>WM</u>	<u>WM</u>	<u>Non-</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>ASSETS</u>	<u>Holdings</u>	<u>Guarantor</u>		
			<u>Subsidiaries</u>		
Current assets:					
Cash and cash equivalents	\$ 112	\$ —	\$ 125	\$ —	\$ 237
Other current assets	—	—	2,217	—	2,217
	<u>112</u>	<u>—</u>	<u>2,342</u>	<u>—</u>	<u>2,454</u>
Property and equipment, net		—	12,360	—	12,360
Investments in and advances to affiliates	12,338	16,156	3,201	(31,695)	—
Other assets	44	12	7,821	—	7,877
Total assets	<u>\$12,494</u>	<u>\$16,168</u>	<u>\$ 25,724</u>	<u>\$ (31,695)</u>	<u>\$ 22,691</u>

LIABILITIES AND EQUITY

Current liabilities:					
Current portion of long-term debt	\$ 552	\$ —	\$ 301	\$ —	\$ 853
Accounts payable and other current liabilities	150	13	2,171	—	2,334
	702	13	2,472	—	3,187
Long-term debt, less current portion	5,580	449	2,944	—	8,973
Other liabilities	44	—	4,000	—	4,044
Total liabilities	<u>6,326</u>	<u>462</u>	<u>9,416</u>	<u>—</u>	<u>16,204</u>
Equity:					
Stockholders' equity	6,168	15,706	15,989	(31,695)	6,168
Noncontrolling interests	—	—	319	—	319
	<u>6,168</u>	<u>15,706</u>	<u>16,308</u>	<u>(31,695)</u>	<u>6,487</u>
Total liabilities and equity	<u>\$12,494</u>	<u>\$16,168</u>	<u>\$ 25,724</u>	<u>\$ (31,695)</u>	<u>\$ 22,691</u>

WASTE MANAGEMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2011

	<u>WM</u>	<u>WM</u>	<u>Non-</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>ASSETS</u>	<u>Holdings</u>	<u>Guarantor</u>		
			<u>Subsidiaries</u>		
Current assets:					
Cash and cash equivalents	\$ 119	\$ —	\$ 139	\$ —	\$ 258
Other current assets	6	—	2,115	—	2,121
	125	—	2,254	—	2,379
Property and equipment, net	—	—	12,242	—	12,242
Investments in and advances to affiliates	12,006	14,905	3,033	(29,944)	—
Other assets	120	12	7,816	—	7,948
Total assets	<u>\$12,251</u>	<u>\$14,917</u>	<u>\$ 25,345</u>	<u>\$ (29,944)</u>	<u>\$ 22,569</u>
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of long-term debt	\$ 298	\$ —	\$ 333	\$ —	\$ 631
Accounts payable and other current liabilities	124	13	2,300	—	2,437
	422	13	2,633	—	3,068
Long-term debt, less current portion	5,727	449	2,949	—	9,125
Other liabilities	32	—	3,954	—	3,986
Total liabilities	6,181	462	9,536	—	16,179
Equity:					
Stockholders' equity	6,070	14,455	15,489	(29,944)	6,070
Noncontrolling interests	—	—	320	—	320
	6,070	14,455	15,809	(29,944)	6,390
Total liabilities and equity	<u>\$12,251</u>	<u>\$14,917</u>	<u>\$ 25,345</u>	<u>\$ (29,944)</u>	<u>\$ 22,569</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2012

(Unaudited)

	WM	WM Holdings	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 3,459	\$ —	\$ 3,459
Costs and expenses	—	—	2,993	—	2,993
Income from operations	—	—	466	—	466
Other income (expense):					
Interest income (expense)	(88)	(8)	(24)	—	(120)
Equity in earnings of subsidiaries, net of taxes	262	267	—	(529)	—
Other, net	—	—	(12)	—	(12)
	174	259	(36)	(529)	(132)
Income before income taxes	174	259	430	(529)	334
Provision for (benefit from) income taxes	(34)	(3)	152	—	115
Consolidated net income	208	262	278	(529)	219
Less: Net income attributable to noncontrolling interests	—	—	11	—	11
Net income attributable to Waste Management, Inc.	<u>\$208</u>	<u>\$ 262</u>	<u>\$ 267</u>	<u>\$ (529)</u>	<u>\$ 208</u>

Three Months Ended June 30, 2011

(Unaudited)

	WM	WM Holdings	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 3,347	\$ —	\$ 3,347
Costs and expenses	—	—	2,841	—	2,841
Income from operations	—	—	506	—	506
Other income (expense):					
Interest income (expense)	(86)	(8)	(23)	—	(117)
Equity in earnings of subsidiaries, net of taxes	290	295	—	(585)	—
Other, net	—	—	(8)	—	(8)
	204	287	(31)	(585)	(125)
Income before income taxes	204	287	475	(585)	381
Provision for (benefit from) income taxes	(33)	(3)	167	—	131
Consolidated net income	237	290	308	(585)	250
Less: Net income attributable to noncontrolling interests	—	—	13	—	13
Net income attributable to Waste Management, Inc.	<u>\$237</u>	<u>\$ 290</u>	<u>\$ 295</u>	<u>\$ (585)</u>	<u>\$ 237</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)

Six Months Ended June 30, 2012

(Unaudited)

	WM	WM Holdings	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 6,754	\$ —	\$ 6,754
Costs and expenses	—	—	5,887	—	5,887
Income from operations	—	—	867	—	867
Other income (expense):					
Interest income (expense)	(176)	(16)	(49)	—	(241)
Equity in earnings of subsidiaries, net of taxes	486	496	—	(982)	—
Other, net	—	—	(20)	—	(20)
	<u>310</u>	<u>480</u>	<u>(69)</u>	<u>(982)</u>	<u>(261)</u>
Income before income taxes	310	480	798	(982)	606
Provision for (benefit from) income taxes	(69)	(6)	279	—	204
Consolidated net income	379	486	519	(982)	402
Less: Net income attributable to noncontrolling interests	—	—	23	—	23
Net income attributable to Waste Management, Inc.	<u>\$ 379</u>	<u>\$ 486</u>	<u>\$ 496</u>	<u>\$ (982)</u>	<u>\$ 379</u>

Six Months Ended June 30, 2011

(Unaudited)

	WM	WM Holdings	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 6,450	\$ —	\$ 6,450
Costs and expenses	—	—	5,517	—	5,517
Income from operations	—	—	933	—	933
Other income (expense):					
Interest income (expense)	(171)	(17)	(47)	—	(235)
Equity in earnings of subsidiaries, net of taxes	527	537	—	(1,064)	—
Other, net	—	—	(11)	—	(11)
	<u>356</u>	<u>520</u>	<u>(58)</u>	<u>(1,064)</u>	<u>(246)</u>
Income before income taxes	356	520	875	(1,064)	687
Provision for (benefit from) income taxes	(67)	(7)	315	—	241
Consolidated net income	423	527	560	(1,064)	446
Less: Net income attributable to noncontrolling interests	—	—	23	—	23
Net income attributable to Waste Management, Inc.	<u>\$ 423</u>	<u>\$ 527</u>	<u>\$ 537</u>	<u>\$ (1,064)</u>	<u>\$ 423</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	<u>WM</u>	<u>WM Holdings</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Three Months Ended June 30, 2012</u>					
Comprehensive income	\$190	\$ 262	\$ 253	\$ (529)	\$ 176
Less: Comprehensive income attributable to noncontrolling interests	—	—	11	—	11
Comprehensive income attributable to Waste Management, Inc.	<u>\$190</u>	<u>\$ 262</u>	<u>\$ 242</u>	<u>\$ (529)</u>	<u>\$ 165</u>
<u>Three Months Ended June 30, 2011</u>					
Comprehensive income	\$231	\$ 290	\$ 316	\$ (585)	\$ 252
Less: Comprehensive income attributable to noncontrolling interests	—	—	13	—	13
Comprehensive income attributable to Waste Management, Inc.	<u>\$231</u>	<u>\$ 290</u>	<u>\$ 303</u>	<u>\$ (585)</u>	<u>\$ 239</u>
<u>Six Months Ended June 30, 2012</u>					
Comprehensive income	\$366	\$ 486	\$ 523	\$ (982)	\$ 393
Less: Comprehensive income attributable to noncontrolling interests	—	—	23	—	23
Comprehensive income attributable to Waste Management, Inc.	<u>\$366</u>	<u>\$ 486</u>	<u>\$ 500</u>	<u>\$ (982)</u>	<u>\$ 370</u>
<u>Six Months Ended June 30, 2011</u>					
Comprehensive income	\$421	\$ 527	\$ 591	\$ (1,064)	\$ 475
Less: Comprehensive income attributable to noncontrolling interests	—	—	23	—	23
Comprehensive income attributable to Waste Management, Inc.	<u>\$421</u>	<u>\$ 527</u>	<u>\$ 568</u>	<u>\$ (1,064)</u>	<u>\$ 452</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2012

(Unaudited)

	<u>WM</u>	<u>WM Holdings</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Consolidated net income	\$ 379	\$ 486	\$ 519	\$ (982)	\$ 402
Equity in earnings of subsidiaries, net of taxes	(486)	(496)	—	982	—
Other adjustments	91	—	651	—	742
Net cash provided by (used in) operating activities	<u>(16)</u>	<u>(10)</u>	<u>1,170</u>	<u>—</u>	<u>1,144</u>
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(154)	—	(154)
Capital expenditures	—	—	(730)	—	(730)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	—	—	20	—	20
Net receipts from restricted trust and escrow accounts and other, net	—	—	(39)	—	(39)
Net cash provided by (used in) investing activities	<u>—</u>	<u>—</u>	<u>(903)</u>	<u>—</u>	<u>(903)</u>
Cash flows from financing activities:					
New borrowings	150	—	162	—	312
Debt repayments	(35)	—	(236)	—	(271)
Cash dividends	(329)	—	—	—	(329)
Common stock repurchases	—	—	—	—	—
Exercise of common stock options	31	—	—	—	31
Distributions paid to noncontrolling interests and other	9	—	(14)	—	(5)
(Increase) decrease in intercompany and investments, net	183	10	(193)	—	—
Net cash provided by (used in) financing activities	<u>9</u>	<u>10</u>	<u>(281)</u>	<u>—</u>	<u>(262)</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	—
Increase (decrease) in cash and cash equivalents	(7)	—	(14)	—	(21)
Cash and cash equivalents at beginning of period	119	—	139	—	258
Cash and cash equivalents at end of period	<u>\$ 112</u>	<u>\$ —</u>	<u>\$ 125</u>	<u>\$ —</u>	<u>\$ 237</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Six Months Ended June 30, 2011

(Unaudited)

	WM	WM Holdings	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Consolidated net income	\$ 423	\$ 527	\$ 560	\$ (1,064)	\$ 446
Equity in earnings of subsidiaries, net of taxes	(527)	(537)	—	1,064	—
Other adjustments	2	(3)	633	—	632
Net cash provided by (used in) operating activities	<u>(102)</u>	<u>(13)</u>	<u>1,193</u>	<u>—</u>	<u>1,078</u>
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(157)	—	(157)
Capital expenditures	—	—	(596)	—	(596)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	—	—	13	—	13
Net receipts from restricted trust and escrow accounts and other, net	(5)	—	(79)	—	(84)
Net cash used in investing activities	<u>(5)</u>	<u>—</u>	<u>(819)</u>	<u>—</u>	<u>(824)</u>
Cash flows from financing activities:					
New borrowings	396	—	8	—	404
Debt repayments	—	(147)	(167)	—	(314)
Cash dividends	(323)	—	—	—	(323)
Common stock repurchases	(168)	—	—	—	(168)
Exercise of common stock options	35	—	—	—	35
Distributions paid to noncontrolling interests and other	(10)	—	(49)	—	(59)
(Increase) decrease in intercompany and investments, net	37	160	(197)	—	—
Net cash provided by (used in) financing activities	<u>(33)</u>	<u>13</u>	<u>(405)</u>	<u>—</u>	<u>(425)</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	3	—	3
Decrease in cash and cash equivalents	(140)	—	(28)	—	(168)
Cash and cash equivalents at beginning of period	465	—	74	—	539
Cash and cash equivalents at end of period	<u>\$ 325</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 371</u>

15. Subsequent Event

In July 2012, we announced a reorganization of operations, designed to flatten the management structure and reduce our cost structure. Principal organizational changes anticipated include removal of the management layer consisting of our four geographic Groups; consolidation and reduction of the number of Areas managing the core collection, disposal and recycling business from 22 to 17; and reduction of corporate support staff in an

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

effort to better align their support with the needs of the operating units. This restructuring has been designed around the primary goals of streamlining delivery of corporate support, while not disrupting our front line operations.

We currently estimate that approximately 700 employee positions throughout the Company, including positions at both the management and support level, will be eliminated. Voluntary separation arrangements were offered to many in management.

We expect that this restructuring plan will be implemented through the end of 2012. We currently anticipate a pre-tax charge to earnings in the range of \$50 million to \$60 million, primarily related to employee severance and benefit expenses. This charge, which will be recorded primarily in the third quarter of 2012, is an estimate, and actual charges may vary materially based on various factors, including the level of employee terminations and changes in management's assumptions. This charge estimate does not include facility, lease or other charges that are not yet estimable but that the Company may incur in connection with this restructuring.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included under Item 1 and our Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

In an effort to keep our stockholders and the public informed about our business, we may make "forward-looking statements." Forward-looking statements usually relate to future events and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "forecast," "project," "estimate," "intend," and words of similar nature and generally include statements containing:

- projections about accounting and finances;
- plans and objectives for the future;
- any projections of the amount, timing or impact of cost savings, restructuring actions, workforce reductions or related charges;
- projections or estimates about assumptions relating to our performance; or
- our opinions, views or beliefs about the effects of current or future events, circumstances or performance.

You should view these statements with caution. These statements are not guarantees of future performance, circumstances or events. They are based on the facts and circumstances known to us as of the date the statements are made. All aspects of our business are subject to uncertainties, risks and other influences, many of which we do not control. Any of these factors, either alone or taken together, could have a material adverse effect on us and could change whether any forward-looking statement ultimately turns out to be true. Additionally, we assume no obligation to update any forward-looking statement as a result of future events, circumstances or developments. The following discussion should be read together with the Condensed Consolidated Financial Statements and the notes thereto.

Some of the risks that we believe could affect our financial statements for 2012 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company include the following:

- competition may negatively affect our profitability or cash flows, our pricing strategy may have negative effects on volumes, and inability to execute our pricing strategy in order to retain and attract customers may negatively affect our average yield on collection and disposal business;
- we may fail in implementing our optimization and growth initiatives and overall business strategy, which could adversely impact our financial performance and growth;
- our restructuring may not achieve the goals and cost savings intended, implementing the restructuring may result in business disruption and employee distraction, and changes in our organizational structure and workforce could result in significant restructuring charges;
- regulations may negatively impact our business by, among other things, restricting our operations, increasing costs of operations or requiring additional capital expenditures;
- possible changes in our estimates of costs for site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses;
- certain materials processed by our recycling operations are subject to significant commodity price fluctuations, as are methane gas, electricity and other energy-related products marketed and sold by our landfill gas recovery, waste-to-energy and independent power production plant operations; fluctuations in commodity prices may have negative effects on our operating results;

- increasing customer preference for alternatives to traditional disposal, government mandates requiring recycling and prohibiting disposal of certain types of waste, and overall reduction of waste generated could continue to have a negative effect on volumes of waste going to landfills and waste-to-energy facilities;
- developments in technology could trigger a fundamental change in the waste management industry, as waste streams are increasingly viewed as a resource, which may adversely impact volumes at our landfills and waste-to-energy facilities and our profitability;
- our existing and proposed service offerings to customers may require that we develop or license, and protect, new technologies; and our inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources;
- adverse publicity (whether or not justified) relating to activities by our operations, employees or agents could tarnish our reputation and reduce the value of our brand;
- there is a risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials; any substantial liability for environmental damage could have a material adverse effect on our financial condition and cash flows;
- weak economic conditions may negatively affect the volumes of waste generated;
- some of our customers, including governmental entities, have suffered financial difficulties that could affect our business and operating results, due to their credit risk and the impact of the municipal debt market on remarketing of our tax-exempt bonds;
- if we are unable to obtain and maintain permits needed to open, operate, and/or expand our facilities, our results of operations will be negatively impacted;
- fuel price increases or fuel supply shortages may increase our expenses and restrict our ability to operate;
- problems with the operation of current information technology or the development and deployment of new information systems could decrease our efficiencies and increase our costs;
- a cybersecurity incident could negatively impact our business and our relationships with customers;
- efforts by labor unions to organize our employees may increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have chosen to be represented by unions, which could lead to labor disruptions, including strikes and lock-outs, which could adversely affect our results of operations and cash flows;
- we could face significant liability for withdrawal from multiemployer pension plans;
- we are subject to operational and safety risks, including the risk of personal injury to employees and others;
- increased costs for financial assurance or the inadequacy of our insurance coverage could negatively impact our liquidity and increase our liabilities;
- possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;
- we may reduce or suspend capital expenditures, acquisition activity, dividend declarations or share repurchases if we suffer a significant reduction in cash flows;
- we may be unable to incur future indebtedness on terms we deem acceptable or to refinance our debt obligations, including near-term maturities, on acceptable terms and higher interest rates and market conditions may increase our expense;
- climate change legislation, including possible limits on carbon emissions, may negatively impact our results of operations by increasing expenses;

- weather conditions and one-time special projects cause our results to fluctuate, and harsh weather or natural disasters may cause us to temporarily suspend operations; our stock price may be negatively impacted by interim variations in our results;
- we could be subject to significant fines and penalties, and our reputation could be adversely affected, if our business, or third parties with whom we have relationships, were to fail to comply with United States or foreign laws or regulations;
- negative outcomes of litigation or threatened litigation or governmental proceedings may increase our costs, limit our ability to conduct or expand our operations, or limit our ability to execute our business plans and strategies; and
- the adoption of new accounting standards or interpretations may cause fluctuations in reported quarterly results of operations or adversely impact our reported results of operations.

General

Our principal executive offices are located at 1001 Fannin Street, Suite 4000, Houston, Texas 77002. Our telephone number at that address is (713) 512-6200. Our website address is www.wm.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are all available, free of charge, on our website as soon as practicable after we file the reports with the SEC. Our stock is traded on the New York Stock Exchange under the symbol "WM."

We are the leading provider of comprehensive waste management services in North America. Our subsidiaries provide collection, transfer, recycling and disposal services. We are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States. Our customers include residential, commercial, industrial and municipal customers throughout North America.

Overview

Our Company is dedicated to three transformational goals that we believe will drive continued growth and leadership in a dynamic industry: know more about our customers and how to service them than anyone else; use conversion and processing technology to extract more value from the materials we manage; and continuously improve our operational efficiency. Our strategy supports diversion from landfills and converting waste into valuable products as customers seek more economically and environmentally sound alternatives. We intend to pursue achievement of our long-term goals in the short-term through efforts to:

- grow our markets by implementing customer-focused growth, through customer segmentation and through strategic acquisitions, while maintaining our pricing discipline and increasing the amount of recyclable materials we manage each year;
- grow our customer loyalty;
- grow into new markets by investing in greener technologies; and
- pursue initiatives that improve our operations and cost structure.

These efforts will be supported by ongoing improvements in information technologies. We believe that execution of our strategy will provide long-term value to our stockholders.

Our second quarter of 2012 results of operations reflect the impact of our continued investment in our strategic initiatives, including our July 28, 2011 acquisition of the primary operations of Oakleaf Global Holdings ("Oakleaf"); improvement in our core solid waste business; and the impact of decreases in commodity prices. Highlights of our financial results for the current quarter include:

- Revenues of \$3,459 million compared with \$3,347 million in the second quarter of 2011, an increase of \$112 million, or 3.3%. This increase in revenues is primarily attributable to:
 - Increases associated with acquired businesses of \$199 million;

- Internal revenue growth from volume of 0.6%, compared with negative 1.7% in 2011, which increased revenue by \$19 million; and
- Internal revenue growth from yield on our collection and disposal business of 0.6% in the current period, including a negative impact of 0.4% from our waste-to-energy business, primarily as a result of lower disposal rates associated with the expiration and renegotiation of a long-term disposal contract.
- The impact of decreases in commodity prices decreased our revenue as follows: \$95 million related to recyclable commodity prices; \$9 million related to our fuel surcharge program; and \$8 million related to electricity prices.
- Operating expenses of \$2,260 million, or 65.3% of revenues, compared with \$2,140 million, or 63.9% of revenues, in the second quarter of 2011. This increase of \$120 million, or 5.6%, is due primarily to our acquisitions and growth initiatives, offset partially by a decrease in customer rebates because of lower recyclable commodity prices;
- Selling, general and administrative expenses decreased by \$8 million, or 2.1%, from \$382 million in the second quarter of 2011 to \$374 million in the second quarter of 2012. Reductions in our bonus and long-term incentive plan expenses more than offset increases resulting from our acquisitions;
- Income from operations of \$466 million, or 13.5% of revenues, compared with \$506 million, or 15.1% of revenues, in the second quarter of 2011; and
- Net income attributable to Waste Management, Inc. of \$208 million, or \$0.45 per diluted share, as compared with \$237 million, or \$0.50 per diluted share in the second quarter of 2011. The comparability of our diluted earnings per share has been affected by the following items that occurred in the second quarter of 2012:
 - The recognition of impairment charges of \$34 million, related primarily to two facilities in our medical waste services business, which had an unfavorable impact of \$0.04 on our diluted earnings per share;
 - The recognition of a pre-tax noncash charge of \$10 million associated with the partial withdrawal from an underfunded multiemployer pension plan, which had a negative impact of \$0.01 on our diluted earnings per share; and
 - Pre-tax costs aggregating \$5 million from a combination of restructuring charges and integration costs associated with our acquisition of Oakleaf, which had a negative impact of \$0.01 on our diluted earnings per share.

We are pleased with the growth we are experiencing in our core solid waste business, which has helped to offset the negative effect of decreases in commodity prices on both our revenues and earnings. We anticipate continued improvement in our pricing and cost savings initiatives, including the restructuring activities announced in July 2012, which are outlined below in the *Subsequent Event* discussion. However, in the second half of 2012, we expect to see a continued decline in recyclable commodity prices and a negative year-over-year impact from our waste-to-energy business. Because commodity markets are inherently volatile, this prediction could materially change if markets either improve or deteriorate beyond our current predictions.

Free Cash Flow — As is our practice, we are presenting free cash flow, which is a non-GAAP measure of liquidity, in our disclosures because we use this measure in the evaluation and management of our business. We define free cash flow as net cash provided by operating activities, less capital expenditures, plus proceeds from divestitures of businesses (net of cash divested) and other sales of assets. We believe it is indicative of our ability to pay our quarterly dividends, repurchase common stock, fund acquisitions and other investments and, in the absence of refinancings, to repay our debt obligations. Free cash flow is not intended to replace “Net cash provided by operating activities,” which is the most comparable U.S. GAAP measure. However, we believe free cash flow gives investors greater insight into how we view our liquidity. Nonetheless, the use of free cash flow as a liquidity measure has material limitations because it excludes certain expenditures that are required or that we have committed to, such as declared dividend payments and debt service requirements.

Our calculation of free cash flow and reconciliation to “Net cash provided by operating activities,” is shown in the table below (in millions), and may not be the same as similarly-titled measures presented by other companies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net cash provided by operating activities	\$ 669	\$ 478	\$1,144	\$1,078
Capital expenditures	(351)	(280)	(730)	(596)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	14	8	20	13
Free cash flow	<u>\$ 332</u>	<u>\$ 206</u>	<u>\$ 434</u>	<u>\$ 495</u>

When comparing our cash flow from operating activities for the three months and six months ended June 30, 2012 to the comparable periods in 2011, decreases in our income tax payments have positively affected our cash flow from operations this year, as well as a favorable cash receipt of \$72 million resulting from the termination of interest rate swaps in April 2012. These year-over-year benefits were impacted by lower cash earnings and unfavorable impacts of working capital changes, particularly the change in accounts payable, which is affected by both cost changes and timing of payments.

The increase in capital expenditures when comparing the first six months of 2012 with the prior year period can generally be attributed to increased spending on fueling infrastructure and growth initiatives, and the impact of timing differences associated with cash payments for the previous years’ fourth quarter capital spending. We generally use a significant portion of our free cash flow on capital spending in the fourth quarter of each year. A more significant portion of our fourth quarter 2011 spending was paid in cash in 2012 than in the preceding year.

Acquisition of Oakleaf — On July 28, 2011, we paid \$432 million, net of cash received of \$4 million and inclusive of certain adjustments, to acquire Oakleaf. Oakleaf provides outsourced waste and recycling services principally through a nationwide network of third-party haulers. We acquired Oakleaf to advance our growth and transformation strategies and increase our national accounts customer base while enhancing our ability to provide comprehensive environmental solutions. For the three- and six-month periods ended June 30, 2012, Oakleaf recognized revenues of \$147 million and \$295 million, respectively, and net losses of \$4 million for each period. These amounts are included in our Condensed Consolidated Statement of Operations.

The following pro forma consolidated results of operations for the three and six months ended June 30, 2011 have been prepared as if the acquisition of Oakleaf occurred at January 1, 2011 (in millions, except per share amounts):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	Operating revenues	\$3,488
Net income attributable to Waste Management, Inc.	235	417
Basic earnings per common share	0.49	0.88
Diluted earnings per common share	0.49	0.87

Adoption of New Accounting Pronouncements

Fair Value Measurement — In May 2011, the Financial Accounting Standards Board (“FASB”) amended authoritative guidance associated with fair value measurements. This amended guidance defines certain requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles. The amendments to authoritative guidance associated with fair value measurements were effective for the Company on January 1, 2012 and have been applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Comprehensive Income — In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The amendments to authoritative guidance associated with comprehensive income were effective for the Company on January 1, 2012 and have been applied retrospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methods. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Subsequent Event

In July 2012, we announced a reorganization of operations, designed to flatten the management structure and reduce our cost structure. Principal organizational changes anticipated include removal of the management layer consisting of our four geographic Groups; consolidation and reduction of the number of Areas managing the core collection, disposal and recycling business from 22 to 17; and reduction of corporate support staff in an effort to better align their support with the needs of the operating units. This restructuring has been designed around the primary goals of streamlining delivery of corporate support, while not disrupting our front line operations.

We currently estimate that approximately 700 employee positions throughout the Company, including positions at both the management and support level, will be eliminated. Voluntary separation arrangements were offered to many in management.

We expect that this restructuring plan will be implemented through the end of 2012. We currently anticipate a pre-tax charge to earnings in the range of \$50 million to \$60 million, primarily related to employee severance and benefit expenses. This charge, which will be recorded primarily in the third quarter of 2012, is an estimate, and actual charges may vary materially based on various factors, including the level of employee terminations and changes in management's assumptions. This charge estimate does not include facility, lease or other charges that are not yet estimable but that the Company may incur in connection with this restructuring.

Results of Operations

Operating Revenues

We currently manage and evaluate our principal operations through five Groups. Our four geographic Groups, which are comprised of our Eastern, Midwest, Southern and Western Groups, provide collection,

transfer, disposal (in both solid waste and hazardous waste landfills) and recycling services. Our fifth Group is the Wheelabrator Group, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. These five Groups are our reportable segments. In addition, the Oakleaf operations we acquired on July 28, 2011 represent a separate operating segment; however, they do not meet the criteria to be presented as a separate reportable segment.

We also provide additional services that are not managed through our five Groups, including the Oakleaf operations referenced above, recycling brokerage services, electronic recycling services, in-plant services, landfill gas-to-energy services, integrated medical waste services and expanded service offerings and solutions. Part of our expansion of services includes offering portable self-storage services and fluorescent bulb and universal waste mail-back through our LampTracker® program. In addition, we have made investments that involve the acquisition and development of interests in oil and gas producing properties. These operations are presented as “Other” in the table below. Shown below (in millions) is the contribution to revenues during each period provided by our five Groups and our Other services:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Eastern	\$ 780	\$ 800	\$ 1,516	\$ 1,504
Midwest	822	828	1,579	1,556
Southern	865	862	1,713	1,700
Western	836	825	1,632	1,615
Wheelabrator	206	226	413	436
Other	543	330	1,012	623
Intercompany	(593)	(524)	(1,111)	(984)
Total	<u>\$3,459</u>	<u>\$3,347</u>	<u>\$ 6,754</u>	<u>\$6,450</u>

The mix of operating revenues from our major lines of business is reflected in the table below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Collection:				
Commercial	\$ 855	\$ 881	\$ 1,720	\$ 1,735
Residential	650	655	1,288	1,296
Industrial	536	520	1,038	995
Other	66	60	134	111
Total collection	2,107	2,116	4,180	4,137
Landfill	676	671	1,291	1,250
Transfer	331	334	629	628
Wheelabrator	206	226	413	436
Recycling	369	419	714	789
Other	363	105	638	194
Intercompany	(593)	(524)	(1,111)	(984)
Total	<u>\$3,459</u>	<u>\$3,347</u>	<u>\$ 6,754</u>	<u>\$6,450</u>

The following table provides details associated with the period-to-period change in revenues (dollars in millions) along with an explanation of the significant components of the current period changes:

	Period-to-Period Change for the Three Months Ended June 30, 2012 vs. 2011		Period-to-Period Change for the Six Months Ended June 30, 2012 vs. 2011	
	Amount	As a % of Total Company(a)	Amount	As a % of Total Company(a)
Average yield(b)	\$ (96)	(2.9)%	\$ (136)	(2.1)%
Volume	19	0.6	58	0.9
Internal revenue growth	(77)	(2.3)	(78)	(1.2)
Acquisitions	199	5.9	395	6.1
Divestitures	(1)	—	(1)	—
Foreign currency translation	(9)	(0.3)	(12)	(0.2)
	<u>\$ 112</u>	<u>3.3%</u>	<u>\$ 304</u>	<u>4.7%</u>

- (a) Calculated by dividing the amount of current period increase or decrease by the prior period's total Company revenue adjusted to exclude the impacts of divestitures for the current period (\$3,346 million and \$6,449 million for the three- and six-month periods, respectively).
- (b) The amounts reported herein represent the changes in our revenue attributable to average yield for the total Company. We analyze the changes in average yield in terms of related business revenues in order to differentiate the changes in yield attributable to our pricing strategies from the changes that are caused by market-driven price changes in commodities. The following table summarizes changes in revenues from average yield on a related-business basis:

	Period-to-Period Change for the Three Months Ended June 30, 2012 vs. 2011		Period-to-Period Change for the Six Months Ended June 30, 2012 vs. 2011	
	Amount	As a % of Related Business(i)	Amount	As a % of Related Business(i)
Average yield:				
Collection, landfill and transfer	\$ 25	1.0%	\$ 51	1.0%
Waste-to-energy disposal(ii)	(9)	(7.4)	(13)	(5.7)
Collection and disposal(ii)	16	0.6	38	0.7
Recycling commodities	(95)	(22.6)	(169)	(21.2)
Electricity(ii)	(8)	(11.6)	(14)	(10.4)
Fuel surcharges and mandated fees	(9)	(5.4)	9	3.0
Total	<u>\$ (96)</u>	<u>(2.9)</u>	<u>\$ (136)</u>	<u>(2.1)</u>

- (i) Calculated by dividing the increase or decrease for the current period by the prior period's related business revenue, adjusted to exclude the impacts of divestitures for the current period. The table below summarizes the related business revenues for the three and six months ended June 30, 2011 adjusted to exclude the impacts of divestitures:

	Denominator	
	Three Months Ended June 30	Six Months Ended June 30
Related business revenues:		
Collection, landfill and transfer	\$ 2,569	\$ 4,986
Waste-to-energy disposal	121	228
Collection and disposal	2,690	5,214
Recycling commodity	421	799
Electricity	69	135
Fuel surcharges and mandated fees	166	301
Total Company	<u>\$ 3,346</u>	<u>\$ 6,449</u>

- (ii) Average revenue growth from yield for "Collection and disposal" excludes all electricity-related revenues generated by our Wheelabrator Group, which are reported as "Electricity" revenues.

Our revenues increased \$112 million, or 3.3%, for the three months ended June 30, 2012 as compared with the prior year period and \$304 million, or 4.7%, for the six months ended June 30, 2012 as compared with the prior year period. During the three- and six-month periods, our current period revenue growth has been driven by (i) acquisitions, particularly the acquisition of Oakleaf, which increased consolidated revenues \$139 million and \$270 million for the three and six months ended June 30, 2012, respectively, (ii) increased volume and (iii) increased revenue growth from our collection and disposal average yield. Offsetting these revenue increases were market factors, including lower recyclable commodity prices; lower electricity prices, which correlate with natural gas prices and cause fluctuations in the rates we receive for electricity under our power purchase contracts and merchant transactions; and foreign currency translation, which affects revenues from our Canadian operations.

The following provides further details associated with our period-to-period change in revenues.

Average yield

Collection and disposal average yield — This measure reflects the effect on our revenue from the pricing activities of our collection, transfer, landfill and waste-to-energy disposal operations, exclusive of volume changes. Revenue growth from collection and disposal average yield includes not only base rate changes and environmental and service fee increases, but also (i) certain average price changes related to the overall mix of services, which are due to both the types of services provided and the geographic locations where our services are provided; (ii) changes in average price from new and lost business; and (iii) price decreases to retain customers.

Our revenue growth from yield on our collection and disposal lines of business was \$16 million, or 0.6% and \$38 million, or 0.7% for the three and six months ended June 30, 2012, respectively. This increase in revenue from yield was primarily driven by our collection operations, particularly in our commercial and industrial lines of business. Revenue growth from yield in our residential line of business increased slightly for the quarter ended June 30, 2012 and was flat for the first half of 2012. Our Eastern and Southern Groups continued to experience downward pressure on our revenue growth from yield in our residential line of business, where we saw negative revenue growth from yield. Due to competition, it has become increasingly difficult to retain customers and to win new contracts at current average rates; as a result, in many instances, the Company has offered increased services without a commensurate increase in pricing when bidding on or renewing residential contracts and pursuing residential subscription business. These increased services are principally recycling services, which are typically priced lower than our average rates. This combination of increased competition and bundling of complementary services, such as recycling, in the residential line of business has put added pressure on our revenue growth from yield.

For the three and six months ended June 30, 2012, our total collection and disposal revenue growth from yield were negatively affected by the expiration and renegotiation of a long-term disposal contract in August 2011 at one of our waste-to-energy facilities in South Florida. The expiration and renegotiation of this contract decreased revenues both in our waste-to-energy disposal line of business, by approximately \$6 million and \$12 million for the three and six months ended June 30, 2012, respectively, and in our collection line of business, by approximately \$2 million and \$5 million for the three and six months ended June 30, 2012, respectively. Certain of the franchise agreements serviced by our collection companies in South Florida contain specific language that ties a portion of their total rate to the disposal rate charged by this waste-to-energy facility to our collection companies. The expiration of this long-term contract in South Florida negatively impacted our total collection and disposal yield by approximately \$17 million in the first six months of 2012 as compared with the same prior year period. Additionally, for the three months ended June 30, 2012, we experienced further downward pressure on our revenue growth from yield as a result of the expiration and renegotiation of a second similar long-term waste-to-energy disposal contract in South Florida at the end of March 2012.

Revenues from our environmental fee, which are included in average revenue growth from yield on collection and disposal, increased \$16 million and \$32 million for the three and six months ended June 30, 2012, respectively. These revenues were \$86 million and \$167 million for the three and six months ended June 30, 2012 as compared with \$70 million and \$135 million for the three and six months ended June 30, 2011, respectively.

Recycling commodities — Decreases in the prices of the recycling commodities we sold resulted in a decline in revenues of \$95 million for the three months ended June 30, 2012 and \$169 million for the six months ended June 30, 2012. During the fourth quarter of 2011, we saw commodity prices decline 8% as compared with prior year. During the first six months of 2012, we saw the downward trend continue as year-over-year commodity prices declined about 20%, driven by the continued increase in supply and lower demand.

Fuel surcharges and mandated fees — These revenues, which are predominantly generated by our fuel surcharge program, decreased \$9 million for the three months ended June 30, 2012 due to lower diesel fuel prices. However, these revenues increased \$9 million for the six-month year-over-year comparison due to higher diesel fuel prices and increased mandated fees. The fluctuation in our fuel surcharge revenues is directly attributable to changes in the national average prices for diesel fuel that we use for our fuel surcharge program. The mandated fees included in this line item are primarily related to the pass-through of fees and taxes assessed by various state, county and municipal governmental agencies at our landfills and transfer stations.

Volume — Revenues increased \$19 million and \$58 million for the three and six months ended June 30, 2012, respectively, due to higher volumes. This is a notable improvement from 2011 when lower volumes caused our revenue to decrease \$52 million and \$103 million as compared with the three and six months ended June 30, 2010, respectively.

Our total landfill revenues increased \$5 million and \$30 million for the three and six months ended June 30, 2012, respectively, due to higher third-party volumes as compared with the prior year, primarily driven by higher special waste volumes in our Eastern and Midwest geographic Groups. We also saw revenues increase from year-over-year volume improvements in our recycling brokerage business and in our material recovery facilities. The addition of new single stream recycling facilities during 2011 as well as our continued pursuit of municipal volumes contributed to these increases in revenues due to volume.

Volume declines from our collection business accounted for \$8 million of volume-related revenue decline for the six months ended June 30, 2012, which we experienced entirely in the second quarter of 2012. The decline was primarily driven by our commercial and to a lesser extent our residential collection revenue, which we attribute to the effects of pricing, competition and diversion of waste by consumers, as well as the overall continued weakness in the economy. Revenue declines due to lower volumes in these two collection lines of business were offset, in part, by revenue increases in our industrial collection line of business, driven in large part by the growth of our oilfield services in our Eastern Group.

Additionally, for the three and six months ended June 30, 2012, we saw revenue increases due to volume growth in our non-traditional collection businesses, primarily driven by our healthcare solutions, our in-plant services and growth of our Oakleaf business principally as a result of a new contract signed in May 2012 with one of the largest national big-box retailers.

Acquisitions and divestitures — Revenues increased \$199 million and \$395 million for the three and six months ended June 30, 2012 due to acquisitions. The increase was principally associated with our acquisition of Oakleaf, which is reported in our “Other” line of business. Additionally, acquisitions increased our revenues in the current period in our collection line of business, due in part to our oilfield services in our Eastern Group, and in our recycling line of business. These acquisitions demonstrate our focus on identifying strategic growth opportunities in new, complementary lines of business.

Operating Expenses

Our operating expenses increased by \$120 million, or 5.6%, and \$291 million, or 7.0% for the three and six months ended June 30, 2012 as compared with the three and six months ended June 30, 2011. Our operating expenses as a percentage of revenues increased from 63.9% in the second quarter of 2011 to 65.3% in the current quarter, and increased from 64.1% for the six months ended June 30, 2011 to 65.5% for the six months ended June 30, 2012. The increase in our operating expenses during the three and six months ended June 30, 2012 can largely be attributed to the following:

- *Acquisitions and growth initiatives* — We have experienced cost increases attributable to recently acquired businesses and, to a lesser extent, our various growth and business development initiatives. The increase in operating expenses resulting from acquired businesses was more than offset by increased revenues from acquired businesses. Recent acquisitions include the purchase of Oakleaf and a number of collection and recycling operations. These cost increases affected each of the operating cost categories identified in the table below and accounted for approximately 90% and 75% of our total increase in operating expenses for the three and six months ended June 30, 2012, respectively. In particular, the acquisition of Oakleaf increased operating costs by \$121 million in the current quarter and \$228 million in the first half of 2012, primarily increasing subcontractor costs and, to a lesser extent, the cost of goods sold and other categories; and
- *Volume increases* — During the first half of 2012, we experienced an increase in variable costs attributable to higher volumes in certain lines of business, particularly our recycling, industrial collection and non-traditional collection businesses. In our non-traditional collection businesses, we experienced volume increases primarily in our in-plant services and largely during the first quarter. We continue to manage our fixed costs and control growth in our variable costs as we experience volume increases. These cost increases due to volume have impacted each of the operating cost categories identified in the table below and were offset, in part, by
- *Lower market prices for recyclable commodities* — Overall, market prices for recyclable commodities decreased approximately 20% as compared with prior year levels on a year-to-date basis. The year-over-year decrease is the result of the continued decrease in recyclable commodity market prices that began during late 2011 from the near-historic highs reached during the second and third quarters of 2011. This decrease in market prices was the primary driver of the current quarter decrease in cost of goods sold, primarily customer rebates, and has also resulted in decreased revenues and earnings during the current period.

The following table summarizes the major components of our operating expenses, which include the impact of foreign currency translation, for the three- and six-month periods ended June 30 (dollars in millions):

	Three Months Ended June 30,		Period-to-Period Change		Six Months Ended June 30,		Period-to-Period Change	
	2012	2011			2012	2011		
Labor and related benefits	\$ 605	\$ 582	\$ 23	4.0%	\$ 1,198	\$ 1,145	\$ 53	4.6%
Transfer and disposal costs	256	243	13	5.3	468	463	5	1.1
Maintenance and repairs	290	279	11	3.9	592	558	34	6.1
Subcontractor costs	299	201	98	48.8	575	381	194	50.9
Cost of goods sold	250	276	(26)	(9.4)	482	516	(34)	(6.6)
Fuel	162	166	(4)	(2.4)	324	310	14	4.5
Disposal and franchise fees and taxes	159	154	5	3.2	304	295	9	3.1
Landfill operating costs	55	64	(9)	(14.1)	110	124	(14)	(11.3)
Risk management	57	63	(6)	(9.5)	118	119	(1)	(0.8)
Other	127	112	15	13.4	255	224	31	13.8
	<u>\$2,260</u>	<u>\$2,140</u>	<u>\$120</u>	<u>5.6%</u>	<u>\$4,426</u>	<u>\$4,135</u>	<u>\$291</u>	<u>7.0%</u>

Other significant changes in our operating expenses are discussed below.

- *Labor and related benefits* — The increase was largely due to (i) additional employee expenses incurred as a result of acquisitions and growth opportunities; (ii) higher hourly and salaried wages due to merit increases effective April 2011 and increases stipulated in union labor agreements; and (iii) a non-cash charge incurred during the three months ended June 30, 2012 by our Eastern Group as a result of our partial withdrawal from an underfunded multi-employer pension plan in New England.
- *Transfer and disposal costs* — Tipping fees paid to third party disposal facilities and transfer stations increased during the three months ended June 30, 2012 as compared with the three months ended June 30, 2011, due in large part to the acquisitions, growth initiatives and volume increases previously noted.
- *Maintenance and repairs* — The increase was primarily due to (i) higher costs in our geographic Groups, largely attributable to increased fleet maintenance costs, (ii) differences in the timing and scope of planned maintenance projects at our waste-to-energy facilities, principally during the first quarter, a portion of which was offset by an increase in revenues related to the reimbursement of certain of these costs by a municipality, and (iii) an increase in container maintenance costs as a result of our third quarter 2011 acquisition of Oakleaf. Our fleet maintenance costs include services provided by third parties, tires, parts and internal shop labor costs. The increase in expense for tires and parts reflects the worldwide increase in related commodity prices. Through our Oakleaf acquisition, we operate a nationwide compactor leasing business (Greenleaf Compaction) which has increased our container maintenance costs in the current year when compared with the six months ended June 30, 2011.
- *Subcontractor costs* — The current year increase in subcontractor costs was primarily a result of the Oakleaf acquisition and, to a much lesser extent, (i) other recent acquisitions, (ii) our various growth and business development initiatives, (iii) additional costs associated with servicing our in-plant services and healthcare solutions customers, and (iv) as discussed further below, higher fuel prices experienced in the first quarter, which resulted in an increase in the fuel component of our subcontractor costs for the first half of 2012 as compared with the prior year. Oakleaf principally utilizes a nationwide network of third-party haulers to service its customers, which increased our subcontractor costs by \$98 million and \$181 million during the second quarter and first half of 2012, respectively.

• *Fuel* — On average, diesel fuel prices increased 3.7% from \$3.82 per gallon for the first half of 2011 to \$3.96 per gallon for the first half of 2012, and decreased 1.5% from \$4.01 per gallon in the second quarter of 2011 to \$3.95 per gallon in the second quarter of 2012. Higher fuel costs experienced in the first quarter of 2012 over the first quarter of last year caused increases in both our direct fuel costs and in the fuel component of our subcontractor costs for the current year, which were partly offset by the impact of the slightly lower prices during the second quarter of 2012 compared with the second quarter of last year. Increased revenues attributable to our fuel surcharge largely offset the higher fuel costs incurred during the six months ended June 30, 2012.

• *Landfill operating costs* — The current quarter and year-to-date decreases were attributable to additional prior year landfill site costs for leachate collection and disposal for our Eastern and Midwest Groups. These additional prior year costs were largely associated with widespread record flooding in the Ohio Valley during the spring of 2011.

• *Other* — The current year increase was due to our Oakleaf acquisition, other recent acquisitions and our various growth and business development initiatives. The increase from our various initiatives is associated with the rental of facilities and equipment for these operations.

Selling, General and Administrative

Our selling, general and administrative expenses decreased by \$8 million, or 2.1%, and increased \$17 million, or 2.2%, when comparing the three and six months ended June 30, 2012 with the comparable prior year periods. As a percentage of revenue, our selling, general and administrative expenses decreased from 11.4% for the second quarter of 2011 to 10.8% for the second quarter of 2012, and decreased from 11.8% for the six months ended June 30, 2011 to 11.6% for the six months ended June 30, 2012.

The most significant items affecting the year-over-year comparison of selling, general and administrative costs for the three and six months ended June 30, 2012 include (i) our acquisition of Oakleaf, which increased costs by \$16 million and \$31 million, respectively; (ii) increased costs incurred to support our sales and marketing initiatives, which include expenses associated with our customer-focused growth initiative through segmentation, of \$2 million and \$10 million, respectively; (iii) a decrease in bonus expense and non-cash compensation expenses attributable to our long-term incentive plan, or LTIP; and (iv) additional costs, principally labor-related, associated with our efforts to implement our cost savings programs focusing on procurement, operational and back-office efficiency of \$5 million and \$9 million, respectively. However, the additional costs incurred in 2012 related to our cost savings programs were more than offset by a decrease in consulting costs of \$11 million and \$21 million for the three- and six-month periods ended June 30, 2012, respectively. We incurred higher consulting costs in 2011 during the start-up phase of these programs. We have received associated benefits of these cost savings programs throughout the first half of 2012 and expect the benefits to continue throughout the remainder of the year.

The following table summarizes the major components of our selling, general and administrative expenses for the three- and six-month periods ended June 30 (dollars in millions):

	Three Months Ended June 30,		Period-to-Period Change		Six Months Ended June 30,		Period-to-Period Change	
	2012	2011			2012	2011		
Labor and related benefits	\$211	\$217	\$(6)	(2.8)%	\$456	\$443	\$ 13	2.9%
Professional fees	47	53	(6)	(11.3)	87	107	(20)	(18.7)
Provision for bad debts	14	8	6	75.0	29	17	12	70.6
Other	102	104	(2)	(1.9)	209	197	12	6.1
	<u>\$374</u>	<u>\$382</u>	<u>\$(8)</u>	<u>(2.1)%</u>	<u>\$781</u>	<u>\$764</u>	<u>\$ 17</u>	<u>2.2%</u>

Labor and related benefits — Throughout the first half of 2012, our labor and related benefits costs increased primarily due to higher compensation costs due to an increase in headcount and higher salaries and hourly wages due to merit increases that were effective in April 2011. The increased headcount was driven by

(i) our acquisition of Oakleaf, (ii) our sales and marketing initiatives, although to a much lesser extent during the three months ended June 30, 2012, and (iii) our cost savings programs. Offsetting these increases completely during the three-month comparison, and to a lesser extent during the six-month comparison, were (i) lower bonus expense in 2012 because our anticipated full year performance against targets established in our 2012 annual incentive plan is not as strong in 2012 as compared with anticipated full year performance against 2011 performance targets as of the same time last year and (ii) lower non-cash compensation expenses attributable to our LTIP. During the second quarter of 2012, we reversed all compensation costs previously recognized for our 2010 performance share units based on our determination that it was no longer probable that the targets established for that award would be met. This reversal was the primary driver of a year-over-year decrease in LTIP expenses of \$9 million and \$12 million for the three- and six-month periods ended June 30, 2012, respectively.

Professional fees — In 2012, our professional fees decreased primarily due to the discontinuation of consulting services and related fees incurred during 2011 associated with the start-up phase of our cost savings programs. These decreases were partially offset by higher costs related to international developments of our waste-to-energy business and higher legal costs, particularly during the three months ended June 30, 2012.

Provision for bad debts — The increase in our provision for bad debts was driven in part by (i) increased collection risks resulting from work we are performing in certain new businesses in our Eastern Group; (ii) collection issues we are experiencing in our Puerto Rico operations in our Southern Group; and (iii) increases due to our recent Oakleaf acquisition.

Other — In 2012, we experienced increases in our (i) travel and entertainment costs to support our strategic efforts; (ii) building and equipment costs, which include rental and utilities; and (iii) computer and telecommunications costs, due in part to improvements we are making to our information technology systems. Offsetting these increases completely during the three-month comparison, and to a lesser extent during the six-month comparison, were lower litigation settlement costs and decreased spending on advertising.

Depreciation and Amortization

The following table summarizes the components of our depreciation and amortization expense for the three- and six-month periods ended June 30 (dollars in millions):

	Three Months Ended June 30,		Period-to-Period Change		Six Months Ended June 30,		Period-to-Period Change	
	2012	2011			2012	2011		
Depreciation of tangible property and equipment	\$208	\$200	\$ 8	4.0%	\$415	\$399	\$16	4.0%
Amortization of landfill airspace	97	108	(11)	(10.2)	190	197	(7)	(3.6)
Amortization of intangible assets	18	11	7	63.6	35	22	13	59.1
	<u>\$323</u>	<u>\$319</u>	<u>\$ 4</u>	1.3%	<u>\$640</u>	<u>\$618</u>	<u>\$22</u>	3.6%

The decrease in amortization expense of landfill airspace in 2012 is primarily due to unfavorable landfill final capping adjustments through the second quarter of 2011 associated with changes in landfill final capping estimates at three landfills combined with favorable final capping adjustments in the second quarter of 2012 at two landfills. For the six months ended June 30, 2012, these decreases were partially offset by landfill volume increases.

The increase in amortization expense of intangible assets in 2012 is due to our focus on the growth and development of our business through acquisitions and other investments. The increase is primarily related to the amortization of customer lists, which were acquired through our acquisition of Oakleaf and through our acquisition of collection and recycling operations.

Restructuring

Beginning in July 2011, we took steps to streamline our organization as part of our cost savings programs. This reorganization eliminated over 700 employee positions throughout the Company, including approximately 300 open positions. Additionally, subsequent to our acquisition of Oakleaf, we incurred charges in connection

with restructuring that organization. During the year ended December 31, 2011, we recognized a total of \$19 million of pre-tax restructuring charges, of which \$18 million were related to employee severance and benefit costs associated with these restructuring efforts. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the first half of 2012, we recognized additional employee severance and benefit restructuring charges of \$7 million, including \$3 million associated with the reorganization of Oakleaf and additional amounts associated with certain other actions taken by the Company primarily in our Southern Group.

(Income) Expense from Divestitures, Asset Impairments and Unusual Items

During the second quarter of 2012, we recognized impairment charges of \$34 million, relating primarily to two facilities in our medical waste services business as a result of projected operating losses at each of these facilities. We wrote down the carrying values of the facilities' operating permits and property, plant and equipment to their estimated fair values. Our medical waste services business is included in our "Other" operations in the *Income from Operations by Reportable Segment* discussion below.

In addition, the negative effect on our revenues of the continued deterioration of electricity commodity prices, coupled with our continued increased exposure to market prices as a result of the expiration of several long-term, fixed-rate electricity commodity contracts at our waste-to-energy and independent power facilities, and the expiration of several long-term disposal contracts at above-market rates indicated that the fair value of our Wheelabrator Group could potentially be less than its carrying amount. As a result, in the second quarter of 2012, we performed an interim impairment analysis of our Wheelabrator Group's goodwill balance, which was \$788 million as of June 30, 2012.

We performed an interim quantitative assessment using both an income and a market approach, which indicated that the estimated fair value of our Wheelabrator Group exceeded its carrying value; however, the amount by which the fair value exceeded the carrying value declined significantly from the most recent annual impairment test performed at October 1, 2011. At that time, our Wheelabrator Group's estimated fair value exceeded its carrying value by approximately 30%, as compared with slightly greater than 10% as of the interim impairment test performed this quarter. If market prices for electricity worsen or do not recover as we have projected, if our disposal rates continue to decline, or if our costs and capital expenditures exceed our forecasts, the estimated fair value of our Wheelabrator Group could decrease further and potentially result in an impairment charge in a future period.

Income from Operations by Reportable Segment

The following table summarizes income from operations by reportable segment for the three- and six-month periods ended June 30 (dollars in millions):

	Three Months Ended June 30,		Period-to-Period Change		Six Months Ended June 30,		Period-to-Period Change	
	2012	2011			2012	2011		
Reportable segments:								
Eastern	\$ 143	\$ 141	\$ 2	1.4%	\$ 274	\$ 261	\$ 13	5.0%
Midwest	176	156	20	12.8	329	285	44	15.4
Southern	194	193	1	0.5	387	385	2	0.5
Western	145	142	3	2.1	276	282	(6)	(2.1)
Wheelabrator	15	42	(27)	(64.3)	19	55	(36)	(65.5)
Other	(54)	(21)	(33)	157.1	(72)	(35)	(37)	105.7
	619	653	(34)	(5.2)	1,213	1,233	(20)	(1.6)
Corporate and Other	(153)	(147)	(6)	4.1	(346)	(300)	(46)	15.3
Total	\$ 466	\$ 506	\$ (40)	(7.9)%	\$ 867	\$ 933	\$ (66)	(7.1)%

Reportable Segments — The most significant items affecting the results of operations of our four geographic Groups during the three and six months ended June 30, 2012 as compared with the prior year periods are summarized below:

- revenue growth from yield on our base business particularly in our Midwest Group and, to a lesser extent, in our Eastern, Southern and Western Groups;
- an improvement in volumes, particularly in our Midwest Group and principally during the first quarter of 2012;
- the accretive benefits of recent acquisitions, particularly in our Eastern Group;
- a decrease in recycling commodity prices;
- higher maintenance and repair costs during the six months ended June 30, 2012; however, our Eastern Group experienced a decrease in costs during the second quarter of 2012;
- a net increase in fuel costs during the six months ended June 30, 2012, consisting of an increase of \$18 million in the first three months of 2012, offset to a small extent by a decrease of \$4 million in the second quarter of 2012. This net increase in fuel during the first half of 2012 outpaced the related revenue growth from our fuel surcharge program; and
- higher salaries and wages during the six months ended June 30, 2012 due to annual merit increases effective April 2011 for salaried and hourly employees. The increases during the six months ended June 30, 2012 were offset, in large part, by the transfer of certain field customer service employees from our reportable segments to Corporate and Other.

The significant decrease in income from operations of our Wheelabrator Group for the three and six months ended June 30, 2012 as compared with the respective prior year periods was driven largely by (i) lower revenues due to the expiration of long-term contracts at our waste-to-energy facilities; (ii) lower energy pricing at our merchant facilities; (iii) increased international development costs; and (iv) increased maintenance and repairs costs primarily due to differences in the timing and scope of planned maintenance activities at our waste-to-energy facilities. These unfavorable items for the six months ended June 30, 2012 were offset in part by (i) the recognition in the first quarter of 2012 of revenues relating to a power purchase agreement that went into effect in 2011, but did not receive regulatory approval until 2012, at which time we recognized revenue; and (ii) additional expenses recognized in 2011 for litigation reserves and associated compliance costs. Approximately \$4 million of the expenses for litigation reserves and associated costs were initially recorded and reported in “Other” during the fourth quarter of 2010 because events giving rise to the reserve occurred after the general ledgers of our operating segments were closed. In the first quarter of 2011, these expenses were reversed out of “Other” and recorded in the appropriate reportable segment.

Other significant items affecting the comparability of our Groups’ results of operations for the three and six months ended June 30, 2012 and 2011 are summarized below:

Eastern — The Eastern Group’s revenues and income from operations for the three and six months ended June 30, 2012 as compared with the prior year periods were favorably affected by the growth of our oilfield services. These services, which focus principally on the hauling and disposal of drill cuttings and fluids and various well pad services, favorably affected both our landfill and collection lines of business. Further favorably affecting the Group’s income from operations was (i) a decrease in landfill amortization expense, which was principally due to both a decline in rates relating to the addition of expansion airspace at one of our landfills in the third quarter of 2011 and a nonrecurring amortization expense adjustment recognized in the second quarter of 2011 at a separate landfill; and (ii) higher landfill site costs in the prior year for the collection and disposal of leachate, which was largely the result of widespread record flooding in the Ohio Valley during the spring of 2011. These favorable impacts were offset in part by the recognition of a non-cash charge in June 2012 resulting from the partial withdrawal from an underfunded multiemployer pension plan in New England.

Southern — During the six months ended June 30, 2011, the Group’s results reflected a charge of \$11 million related to a litigation reserve. The litigation reserve was the result of a court judgment issued in

a litigation matter related to our Southern Group; however, due to the timing of the judgment, the reserve was recorded after the general ledgers of our operating segments for the year 2010 were closed. As a result, the charge was initially recorded and reported in “Other” and reflected in our consolidated operating measures in the fourth quarter of 2010. In the six months ended June 30, 2011, the charge was reversed out of “Other” and recorded in the appropriate reportable segment. The Southern Group’s income from operations was also impacted by an increase of \$3 million in provision for bad debts during the quarter ended June 30, 2012 as a result of collection delays in Puerto Rico.

Significant items affecting the comparability of the remaining components of our results of operations for the three and six months ended June 30, 2012 and 2011 are summarized below:

Other — It is our policy to report adjustments that are recorded after the closing date of our reportable segment ledgers in “Other” when they are initially recorded. We then report these late adjustments in the appropriate reportable segment in the next reporting period, with a corresponding reversal out of “Other.” The unfavorable change in operating results during the six months ended June 30, 2012 is largely due to (i) impairment charges recognized during the second quarter of 2012 relating primarily to two facilities in our medical waste services business as a result of projected operating losses at each of these facilities; and (ii) by the reversal in 2011 of expense adjustments related to our reportable segments that were initially reported in “Other” in the fourth quarter of 2010. These expense adjustments were reported in the applicable reportable segment in the first quarter of 2011. The most significant adjustments reversed out of “Other” in the first quarter of 2011 were related to \$15 million of additional expense for litigation reserves and associated costs in our Southern and Wheelabrator Groups. The unfavorable change during the six months ended June 30, 2012 was offset in part by the net favorable effect of adjustments recorded in both years to reduce bonus expense based on our projected performance against targets established by our annual incentive plan. The second quarter year-over-year decline was principally driven by the asset impairment charges.

Corporate and Other — The increase in “Selling, general and administrative” expenses during the three and six months ended June 30, 2012 is the result of cost increases attributable to (i) additional compensation expense due to transfers of certain field customer service employees to our Corporate sales organization; and (ii) headcount increases due to our sales and marketing initiatives and implementation of our cost saving programs. These increases were partially offset by (i) a decrease in professional fees primarily due to discontinuation of consulting services and related fees incurred during 2011 associated with the start-up phase of our cost savings programs; and (ii) lower non-cash compensation expenses attributable to our LTIP. During the second quarter of 2012, we reversed all compensation costs previously recognized for our 2010 performance share units based on our determination that it was no longer probable that the targets established for that award would be met.

Renewable Energy Operations

Our current operations produce renewable energy through the waste-to-energy facilities that are managed by our Wheelabrator Group and our landfill gas-to-energy operations. We are actively seeking opportunities to enhance our existing renewable energy service offerings to ensure that we can respond to the shifting demands of consumers and to ensure that we are acting as a leader in environmental stewardship.

We are disclosing the following supplemental information related to the operating results of our renewable energy operations for the three and six months ended June 30, 2012 and 2011 (in millions) because we believe that it provides information related to the significance of our current renewable energy operations, the profitability of these operations, and the costs we are incurring to develop these operations.

	Three Months Ended June 30, 2012				Six Months Ended June 30, 2012			
	Wheelabrator	Landfill Gas-to-Energy(a)	Growth Opportunities(b)	Total	Wheelabrator	Landfill Gas-to-Energy(a)	Growth Opportunities(b)	Total
Operating revenues (including intercompany)	\$ 206	\$ 37	\$ —	\$ 243	\$ 413	\$ 72	\$ —	\$ 485
Costs and expenses:								
Operating	144	15	1	160	307	31	2	340
Selling, general & administrative	29	1	1	31	52	2	2	56
Depreciation and amortization	17	7	—	24	34	12	—	46
Restructuring and unusual items	1	—	—	1	1	—	—	1
	191	23	2	216	394	45	4	443
Income (loss) from operations	\$ 15	\$ 14	\$ (2)	\$ 27	\$ 19	\$ 27	\$ (4)	\$ 42
	Three Months Ended June 30, 2011				Six Months Ended June 30, 2011			
	Wheelabrator	Landfill Gas-to-Energy(a)	Growth Opportunities(b)	Total	Wheelabrator	Landfill Gas-to-Energy(a)	Growth Opportunities(b)	Total
Operating revenues (including intercompany)	\$ 226	\$ 34	\$ —	\$ 260	\$ 436	\$ 69	\$ —	\$ 505
Costs and expenses:								
Operating	142	15	1	158	298	29	1	328
Selling, general & administrative	25	1	1	27	50	2	2	54
Depreciation and amortization	17	5	—	22	33	13	—	46
	184	21	2	207	381	44	3	428
Income (loss) from operations	\$ 42	\$ 13	\$ (2)	\$ 53	\$ 55	\$ 25	\$ (3)	\$ 77

- (a) Our landfill gas-to-energy business focuses on generating a renewable energy source from the methane that is produced as waste decomposes. The operating results include the revenues and expenses of landfill gas-to-energy plants that we own and operate, as well as revenues generated from the sale of landfill gas to third-party owner/operators. The operating results of our landfill gas-to-energy business are included within our geographic reportable segments and "Other."
- (b) Includes businesses and entities we have acquired or invested in through our Organic Growth Group's business development efforts. These businesses include a landfill gas-to-LNG facility; landfill gas-to-diesel fuels technologies; organic waste streams-to-fuels technologies; and other engineered fuels technologies. The operating results of our Growth Opportunities are included within "Other" in our assessment of our income from operations by segment.

Interest Expense

Our interest expense was \$121 million and \$243 million during the three and six months ended June 30, 2012, respectively, compared with \$119 million and \$240 million during the three and six months ended June 30, 2011, respectively. Our interest expense has increased only slightly year-over-year in spite of the significant

increase in our average debt balances. This is primarily attributable to interest expense reductions resulting from (i) a decrease in our weighted average borrowing rate that has been achieved by issuing new debt at much lower fixed interest rates than debt repaid upon scheduled maturities; and (ii) a decrease in the costs attributable to our revolving credit facility, which was refinanced in May 2011.

Equity in Net Losses of Unconsolidated Entities

Our "Equity in net losses of unconsolidated entities" is primarily related to our noncontrolling interests in two limited liability companies established to invest in and manage low-income housing properties and a refined coal facility, as well as (i) noncontrolling investments made to support our strategic initiatives and (ii) unconsolidated trusts for final capping, closure, post-closure or environmental obligations. The tax impacts realized as a result of our investments in low-income housing properties and the refined coal facility are discussed below in *Provision for Income Taxes*. Refer to Notes 5 and 13 to the Condensed Consolidated Financial Statements for more information related to these investments.

Provision for Income Taxes

We recorded a provision for income taxes of \$115 million during the second quarter of 2012, representing an effective income tax rate of 34.3%, compared with a provision for income taxes of \$131 million during the second quarter of 2011, representing an effective income tax rate of 34.5%. Our effective income tax rate for the first half of 2012 was 33.6% compared with 35.1% for the first half of 2011.

Our investments in low-income housing properties and the refined coal facility reduced our provision for income taxes by \$9 million and \$5 million, respectively, for the three months ended June 30, 2012 and by \$16 million and \$8 million, respectively, for the six months ended June 30, 2012. These investments reduced our provision for income taxes by \$11 million and \$4 million, respectively, for the three months ended June 30, 2011 and by \$18 million and \$7 million, respectively, for the six months ended June 30, 2011. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

Our acquisition of Oakleaf did not materially impact our provision for income taxes or the effective income tax rate for the three or six months ended June 30, 2012. We did receive, as a part of the acquisition, income tax attributes comprised primarily of federal and state net operating losses. These tax attributes, when realized, will not affect our overall provision for income taxes, however, they will have a favorable impact on our cash taxes, although we do not anticipate the impact to be material to our overall cash flow from operations.

Noncontrolling Interests

Net income attributable to noncontrolling interests was \$11 million and \$23 million for the three and six months ended June 30, 2012 and \$13 million and \$23 million for the three and six months ended June 30, 2011. These amounts are principally related to third parties' equity interests in two limited liability companies that own three waste-to-energy facilities operated by our Wheelabrator Group. Refer to Note 13 to the Condensed Consolidated Financial Statements for information related to the consolidation of these variable interest entities.

Liquidity and Capital Resources

Summary of Cash and Cash Equivalents, Restricted Trust and Escrow Accounts and Debt Obligations

The following is a summary of our cash and cash equivalents, restricted trust and escrow accounts and debt balances as of June 30, 2012 and December 31, 2011 (dollars in millions):

	June 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 237	\$ 258
Restricted trust and escrow accounts:		
Final capping, closure, post-closure and environmental remediation funds	\$ 120	\$ 123
Tax-exempt bond funds	1	14
Debt service funds	22	—
Other	14	15
Total restricted trust and escrow accounts	\$ 157	\$ 152
Debt:		
Current portion	\$ 853	\$ 631
Long-term portion	8,973	9,125
Total debt	\$9,826	\$ 9,756
Increase in carrying value of debt due to hedge accounting for interest rate swaps	\$ 93	\$ 102

As of June 30, 2012, we had \$1,004 million of debt maturing within the next twelve months, including \$300 million of borrowings outstanding under the revolving credit facility, U.S. \$112 million of advances outstanding under our Canadian credit facility, \$400 million of 6.375% senior notes that mature in November 2012 and \$143 million of tax-exempt bonds. We have classified \$151 million of these borrowings as long-term as of June 30, 2012 based on our intent and ability to refinance these borrowings on a long-term basis. We also had \$550 million of tax-exempt borrowings subject to repricing within the next twelve months, which were classified as long-term based on our intent and ability to fund any failed remarketings with available capacity under our revolving credit facility.

Summary of Cash Flow Activity

The following is a summary of our cash flows for the six-month period ended June 30 (in millions):

	Six Months Ended June 30,	
	2012	2011
Net cash provided by operating activities	\$ 1,144	\$ 1,078
Net cash used in investing activities	\$ (903)	\$ (824)
Net cash used in financing activities	\$ (262)	\$ (425)

Net Cash Provided by Operating Activities — We generated \$1,144 million of cash flows from operating activities during the six-month period ended June 30, 2012, compared with \$1,078 million during the six-month period ended June 30, 2011. The \$66 million increase year-over-year was primarily driven by the items described below:

• *Termination of interest rate swaps* — In April 2012, we elected to terminate our \$1 billion interest rate swap portfolio associated with senior notes that were scheduled to mature from November 2012 through March 2018. Upon termination of the swaps, we received \$72 million in cash for their fair value. The cash proceeds received from the termination of interest rate swap agreements have been classified as a change in “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.

• *Decrease in earnings* — Our income from operations, excluding depreciation and amortization, decreased by \$44 million, on a year-over-year basis. However, the earnings decline was driven in part by non-cash charges in 2012 for impairments of \$34 million, for restructuring costs of \$7 million and for a partial withdrawal from an underfunded multiemployer pension fund of \$10 million, offset partially by a reduction of \$14 million in non-cash charges attributable to equity-based compensation expense.

• *Decreased income tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$33 million lower on a year-over-year basis; however, we currently expect our full year cash tax payments to increase on a year-over-year basis as a result of the decrease in the bonus depreciation allowance from a deduction of 100% of qualifying capital expenditures for property placed in service in 2011 to a deduction of 50% of qualifying capital expenditures for property placed in service in 2012. See *Liquidity Impacts of Income Tax Items* below for additional information.

• *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was unfavorably impacted in 2012 by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable changes, which are affected by both cost changes and timing of payments.

Net Cash Used in Investing Activities — The most significant items included in our investing cash flows for the six-month period ended June 30, 2012 and 2011 are summarized below:

• *Capital expenditures* — We used \$730 million during the first half of 2012 for capital expenditures compared with \$596 million in the first half of 2011, an increase of \$134 million. The increase in capital expenditures in 2012 is a result of our increased spending on fueling infrastructure and growth initiatives. The comparison was also affected by timing differences associated with cash payments for the previous years' fourth quarter capital spending. Approximately \$244 million of our fourth quarter 2011 spending was paid in cash in the first quarter of 2012 compared with approximately \$206 million of our fourth quarter 2010 spending that was paid in the first quarter of 2011.

• *Acquisitions* — Our spending on acquisitions was \$154 million in the first half of 2012 compared with \$157 million in the first half of 2011. In 2012, our acquisitions consisted primarily of interests in oil and gas producing properties through two transactions, for which we paid \$94 million. The remainder of our 2012 acquisitions related to collection and recycling operations. In 2011, our acquisitions consisted primarily of collection and recycling operations as well as interests in oil and gas producing properties.

• *Investments in unconsolidated entities* — We made \$40 million and \$91 million of cash investments in unconsolidated entities during the first half of 2012 and 2011, respectively. The investments in 2012 were related to furthering our goal of growing into new markets, while the investments made in 2011 were primarily related to a \$48 million payment made to acquire a noncontrolling interest in a limited liability company that provides us with tax credits and \$43 million of investments in green technologies related to our growth initiatives.

Net Cash Used in Financing Activities — During the six months ended June 30, 2012, net cash used in financing was \$262 million compared with \$425 million during the comparable prior year period. The most significant items affecting the comparison of our financing cash flows for the six-month periods ended June 30, 2012 and 2011 are summarized below:

• *Debt borrowings and repayments* — The following summarizes our cash borrowings and debt repayments during each period (in millions):

	Six Months Ended June 30,	
	2012	2011
Borrowings:		
Revolving credit facility	\$ 150	\$ —
Canadian credit facility	115	—
Senior notes	—	396
Capital leases and other debt	47	8
	<u>\$ 312</u>	<u>\$ 404</u>
Repayments:		
Canadian credit facility	\$(142)	\$ (77)
Senior notes	—	(147)
Tax exempt bonds	(66)	(30)
Tax exempt project bonds	—	(25)
Capital leases and other debt	(63)	(35)
	<u>\$(271)</u>	<u>\$(314)</u>
Net borrowings	<u>\$ 41</u>	<u>\$ 90</u>

Refer to Note 3 to the Condensed Consolidated Financial Statements for additional information related to our debt borrowings and repayments.

• *Dividend payments and share repurchases* — We paid \$329 million in cash dividends in the first half of 2012 compared with \$323 million in the first half of 2011. The increase in dividend payments is due to our quarterly per share dividends declared increasing from \$0.34 in 2011 to \$0.355 in 2012, partially offset by a reduction in the number of outstanding shares as a result of our share repurchase program in 2011.

• We repurchased 4.7 million shares of our common stock for \$176 million during the first half of 2011, of which approximately \$8 million was paid in July 2011. There were no share repurchases during the first half of 2012.

• *Other* — Net cash provided by our other financing activities was \$9 million during the first six months of 2012 compared with net cash used of \$44 million during the first six months of 2011 (including \$7 million of financing costs paid to amend and restate our \$2.0 billion revolving credit facility). The remaining use of cash in 2011 and the source of cash in 2012 were driven by changes in our accrued liabilities for checks written in excess of related cash balances due to the timing of cash deposits or payments.

Liquidity Impacts of Income Tax Items

Recent Legislation — The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act, signed into law on December 17, 2010, included an extension of the bonus depreciation allowance through the end of 2012 and increased the amount of qualifying capital expenditures that can be depreciated immediately from 50% to 100%. The 100% depreciation deduction applied to qualifying property placed in service from

September 8, 2010 through December 31, 2011. The depreciation deduction for qualifying property placed in service in 2012 has been reduced to 50%. The acceleration of deductions on capital expenditures resulting from the bonus depreciation provisions has no impact on our effective tax rates, but reduces our cash taxes in the periods in which the deductions are taken.

Subject to the finalization of our 2011 income tax return, we estimate that the acceleration of depreciation deductions related to qualifying property additions in 2011 decreased our full year 2011 cash taxes by approximately \$190 million and, based on our current forecast of 2012 capital expenditures, we estimate a reduction in our full year 2012 cash taxes of approximately \$90 million related to qualifying property additions in 2012. However, taking accelerated deductions results in increased cash taxes in subsequent periods when the accelerated deductions for these capital expenditures would have otherwise been taken. On a net basis, after taking into account the effect of all applicable years' bonus depreciation programs, we estimate that our full year 2011 cash taxes benefitted by approximately \$139 million and that the deductions taken in previous years from acceleration programs will more than offset the \$90 million benefit expected to be received from accelerated depreciation deductions in 2012.

In addition, as a result of the application of the depreciation safe harbor provisions of the Income Tax Regulations, our estimated income tax payments in 2012 are expected to be lower in the first nine months of the year as compared with 2011. However, we currently expect our full year tax payments to be approximately \$180 million higher than the tax payments made in 2011.

Uncertain Tax Positions — We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are primarily included as a component of long-term “Other liabilities” in our Condensed Consolidated Balance Sheet because the Company generally does not anticipate that settlement of the liabilities will require payment of cash within the next twelve months. We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$7 million of liabilities for uncertain tax positions, including accrued interest, and \$3 million of related deferred tax assets may be reversed within the next twelve months. The anticipated reversals are related to state tax items, none of which are material, and are expected to result from audit settlements or the expiration of the applicable statute of limitations period.

Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 13 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2012, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

Seasonal Trends

Our operating revenues normally tend to be somewhat higher in the summer months, primarily due to the traditional seasonal increase in the volume of construction and demolition waste. Historically, the volumes of industrial and residential waste in certain regions where we operate have tended to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Additionally, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our Southern Group, can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins. Certain weather conditions, including severe winter storms, may result in the temporary suspension of our operations, which can significantly affect the operating results of the affected regions. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Inflation

While inflationary increases in costs, including the cost of diesel fuel, have affected our operating margins in recent years, we believe that inflation generally has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, a portion of our collection revenues are generated under long-term agreements with price adjustments based on various indices intended to measure inflation. Additionally, management's estimates associated with inflation have had, and will continue to have, an impact on our accounting for landfill and environmental remediation liabilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about market risks as of June 30, 2012, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures.

Effectiveness of Controls and Procedures

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2012 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Controls over Financial Reporting

Management, together with our principal executive and financial officers, evaluated the changes in our internal control over financial reporting during the quarter ended June 30, 2012. We determined that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

Item 1. Legal Proceedings.

Information regarding our legal proceedings can be found under the "Environmental Matters" and "Litigation" sections of Note 7, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements.

Item 1A. Risk Factors.

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 in response to Item 1A to Part I of Form 10-K.

Item 4. Mine Safety Disclosures.

Information concerning mine safety and other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this quarterly report.

Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.2	— Amended and Restated By-laws of Waste Management, Inc. [incorporated by reference to Exhibit 3.2 to Current Report on Form 8-K filed July 26, 2012].
10.1	— Resignation Agreement between the Company and Steven C. Preston dated July 5, 2012 and effective August 1, 2012 [incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 5, 2012].
10.2	— Form of 2012 RSU Award Agreement [incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed July 5, 2012].
10.3	— First Amendment to Employment Agreement between the Company and James C. Fish, Jr. dated July 20, 2012.
10.4	— Employment Agreement between the Company and John Morris dated June 18, 2012.
10.5	— Employment Agreement between the Company and Mark Schwartz dated July 5, 2012.
31.1	— Certification Pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer.
31.2	— Certification Pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934, as amended, of Steven C. Preston, Executive Vice President — Finance, Recycling and Energy Services.
32.1	— Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer.
32.2	— Certification Pursuant to 18 U.S.C. §1350 of Steven C. Preston, Executive Vice President — Finance, Recycling and Energy Services.
95	— Mine Safety Disclosures.
101.INS	— XBRL Instance Document.
101.SCH	— XBRL Taxonomy Extension Schema Document.
101.CAL	— XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	— XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	— XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	— XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WASTE MANAGEMENT, INC.

By: /s/ STEVEN C. PRESTON
 Steven C. Preston
 Executive Vice President —
 Finance, Recycling & Energy Services
 (Principal Financial Officer)

WASTE MANAGEMENT, INC.

By: /s/ GREG A. ROBERTSON
 Greg A. Robertson
 Vice President and
 Chief Accounting Officer
 (Principal Accounting Officer)

Date: July 26, 2012

FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT

Waste Management, Inc. ("Company"), and James C. Fish, Jr. (the "Executive") hereby enter into this First Amendment to the Employment Agreement (the "Amendment") as of the July 20, 2012 to hereby amend the Employment Agreement dated August 15, 2011, between the Company and the Executive (the "Employment Agreement"). The Effective Date of this Amendment shall be August 1, 2012 (or, if later, the date on which the Company files its quarterly report on Form 10-Q for the financial quarter ended on June 30, 2012). The Employment Agreement is amended, as follows:

1. As of the Effective Date, the first sentence of Section 3(a) of the Employment Agreement is hereby amended in its entirety to read as follows:

"Executive shall serve as Executive Vice President and Chief Financial Officer."

2. As of the Effective Date, the first sentence of Section 4(a) of the Employment Agreement is hereby amended in its entirety to read as follows:

"During the Employment Period, the Company shall pay Executive a base salary at the annual rate of Five Hundred Thousand and 00/100ths Dollars (\$500,000.00) per year, or such higher rate as may be determined from time to time by the Company ("Base Salary")."

3. As of the Effective Date, Section 4(b) of the Employment Agreement is hereby amended in its entirety to read as follows:

"During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company, as established by the Management Development and Compensation Committee ("Compensation Committee") of the Board from time to time. Executive's target annual bonus under this Agreement will be eighty-five percent (85%) of his Base Salary in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 170% of Base Salary (*i.e.*, a maximum possible bonus of two times the Target Bonus), and will be determined based upon (i) the achievement of certain corporate financial and/or performance goals, as may be established and approved from time to time by the Compensation Committee of the Board, and (ii) the achievement of personal performance goals as may be established by Executive's immediate supervisor. Executive's annual bonus for calendar year 2012 will be prorated between the time spent as Senior Vice President, Eastern Group and the time spent as Executive Vice President and Chief Financial Officer, in each case calculated using the applicable financial and operational performance objectives, salary, and target bonus for each such position. The annual bonus will be paid at such time and in such manner as set forth in the annual incentive compensation plan document."

IN WITNESS WHEREOF, the parties hereto have duly executed this First Amendment to the Employment Agreement.

JAMES C. FISH, JR.
("Executive")

/s/ James C. Fish, Jr.
James C. Fish, Jr.

WASTE MANAGEMENT, INC.
(The "Company")

By: /s/ David P. Steiner
David P. Steiner
President and Chief Executive Officer

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into on this 18th day of June, 2012, but effective as of the date set forth below, by and between Waste Management, Inc. (the "Company") and John Morris (the "Executive").

1. Employment.

The Company shall employ Executive, and Executive shall be employed by the Company upon the terms and subject to the conditions set forth in this Agreement.

Subject to Section 18 below, Executive acknowledges and represents that, any and all prior employment agreements, including without limitation that certain Employment Agreement between he and Waste Management of New Jersey, Inc. dated or about April 9, 2007, is terminated, and that any and all obligations of the Company created thereunder, whether express or implied, are null and void and of no further force or effect, and that the only rights, obligations and duties between the Company and Executive are those expressly set forth in this Agreement.

2. Term of Employment.

The period of Executive's employment under this Agreement began on March 18, 2012 ("Employment Date"), and may be terminated by either party pursuant to Section 5 below. The period during which Executive is employed hereunder shall be referred to as the "Employment Period."

3. Duties and Responsibilities.

(a) Executive shall serve as the Company's Chief Strategy Officer. In such capacity, Executive shall perform such duties and have the power, authority, and functions consistent with such position, as may be deemed appropriate for the position and assigned to Executive from time to time by the Chief Executive Officer or the Board of Directors (the "Board") of the Company.

(b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and its affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 10 of this Agreement), be involved in charitable and professional activities, and, with the prior written consent of the Board, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder or create a conflict of interest (however, the Board does not typically allow officers to serve on more than one public company board at a time).

4. Compensation and Benefits.

(a) Base Salary. During the Employment Period, the Company shall pay Executive a base salary at the annual rate of Three Hundred Twenty Thousand and 00/100ths Dollars (\$320,000.00) per year, or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced except by mutual agreement.

(b) Annual Bonus. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company, as established by the Management Development and Compensation Committee ("Compensation Committee") of the Board from time to time. Executive's target annual bonus under this Agreement will be sixty percent (60%) of his Base Salary in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 120% of Base Salary (*i.e.*, a maximum possible bonus of two times the Target Bonus), and will be determined based upon (i) the achievement of certain corporate financial and/or performance goals, as may be established and approved from time to time by the Compensation Committee of the Board, and (ii) the achievement of personal performance goals as may be established by Executive's immediate supervisor. Executive's annual bonus for calendar year 2012 will be prorated between the time he spent as Vice-President for the Greater Mid-Atlantic Market Area (using the applicable financial and operational performance objectives, salary, and target bonus) and the time he spent as Chief Strategy Officer. The annual bonus will be paid at such time and in such manner as set forth in the annual incentive compensation plan document.

(c) Benefit Plans and Vacation. Subject to the terms of such plans, Executive shall be eligible to participate in or receive benefits under any profit sharing plan, salary deferral plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to similarly-situated executive employees. The Company shall not be obligated to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, so long as such changes are similarly applicable to similarly-situated employees generally.

During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. Vacation not taken in the calendar year in which it is granted cannot be carried forward to any subsequent year.

(d) Expense Reimbursement. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of his duties hereunder in accordance with the Company's customary practices applicable to executive officers. The reimbursement of expenses during a year will not affect the expenses eligible for reimbursement in any other year. In no event shall any expense be reimbursed after the last day of the year following the year in which the expense was incurred.

(e) Other Perquisites. Executive shall be entitled to all perquisites provided to Senior Vice Presidents of the Company as approved by the Compensation Committee of the Board, and as they may exist from time to time.

(f) Relocation to Houston. Upon the Employment Date, Executive will relocate his residence to the Houston, Texas area. Executive's relocation of his residence to Houston will be eligible for coverage under the "Plan 2 – GBO Guaranteed Offer Program" of the Company's relocation policy. Executive must execute that certain Employee Repayment Agreement with the Company's relocation provider in order to be eligible to receive reimbursement for any relocation expenses.

It is expressly agreed that should Executive resign without "Good Reason" (as that term is defined in Section 5(d) below) or is terminated "For Cause" (as that term is defined in Section 5(c) below) during the twelve-month period following the Employment Date, then Executive shall be required to reimburse the Company for one hundred percent (100%) of the relocation expenses paid by the Company to or on behalf of Executive.

The parties further agree that during such time as Executive serves as Chief Strategy Officer, he will not be required to relocate his residence from the Houston, Texas area prior to June 30, 2016. In the event that the Company requests Executive to relocate his residence from the Houston, Texas area prior to June 30, 2016, and should Executive decline to do so, then the Company may at its sole discretion elect to terminate Executive's employment "Without Cause" under Section 5(e) below and Executive shall be provided (i) the compensation and benefits set forth in Section 6(e) or Section 7(a) below (as the case may be) and (ii) relocation back to New Jersey under the Company's then existing "Plan 2 – GBO Guaranteed Offer Program" of the Company's relocation policy. The parties understand and further agree that should Executive be offered and accept another position within the Company, relocation from the Houston, Texas area may be required.

5. Termination of Employment.

Executive's employment hereunder may be terminated during the Employment Period under the following circumstances:

(a) Death. Executive's employment hereunder shall terminate upon Executive's death.

(b) Total Disability. The Company may terminate Executive's employment hereunder upon Executive's becoming "Totally Disabled." For purposes of this Agreement, Executive shall be considered "Totally Disabled" if Executive has become physically or mentally disabled so as to render Executive incapable of performing the essential functions of his position (with or without reasonable accommodations) and such disability is expected to result in death or to last for a continuous period of at least 12 months, provided that such condition constitutes a "disability" within the meaning of Section 409A of the Internal Revenue Code. Executive's receipt of disability benefits under the Company's long-term disability plan or receipt of Social Security disability benefits shall be deemed conclusive evidence of Total Disability for purpose of this Agreement.

(c) Termination by the Company for Cause. The Company may terminate Executive's employment hereunder for "Cause" at any time after providing a Notice of Termination for Cause to Executive.

- (i) For purposes of this Agreement, the term "Cause" means any of the following: Executive's (A) willful or deliberate and continual refusal to perform Executive's employment duties reasonably requested by the Company after receipt of written notice to Executive of such failure to perform, specifying such failure (other than as a result of Executive's sickness, illness or injury) and Executive's failure to cure such nonperformance within ten (10) days of receipt of said written notice; (B) breach of any statutory or common law duty of loyalty to the Company; (C) conviction of, or plea of *nolo contendere* to, any felony; (D) willful or intentional cause of material injury to the Company, its property, or its assets; (E) disclosure or attempted disclosure to any unauthorized person(s) of the Company's proprietary or confidential information; (F) material violation or a repeated and willful violation of the Company's policies or procedures, including but not limited to, the Company's Code of Business Conduct and Ethics (or any successor policy) then in effect; or (G) breach of any of the covenants set forth in Section 10 hereof.
- (ii) For purposes of this Agreement, the phrase "Notice of Termination for Cause" shall mean a written notice that shall indicate the specific termination provision or provisions in Section 5(c)(i) relied upon, and shall set forth in reasonable detail the facts and circumstances which provide the basis for termination for Cause.

(d) Voluntary Termination by Executive. Executive may terminate his employment hereunder with or without Good Reason at any time upon written notice to the Company.

- (i) A termination for "Good Reason" means a resignation of employment by Executive by written notice ("Notice of Termination for Good Reason") given to the Company's Chief Executive Officer within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are substantially corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (A) the Company materially diminishes Executive's core duties or responsibility for those core duties, so as to effectively cause Executive to no longer be performing the duties of his position (except in each case in connection with the termination of Executive's employment for Death, Total Disability, or Cause, or temporarily as a result of Executive's illness or other absence); (B) in the event of the Company's becoming a fifty percent or more subsidiary of any other entity, the

Company materially diminishes the duties, authority or responsibilities of the person to whom Executive is required to report; (C) removal or the non-reelection of the Executive from the officer position with the Company specified herein, or removal of the Executive from any of his then officer positions; (D) any material breach by the Company of any provision of this Agreement; or (E) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder, resulting in a material negative change in the employment relationship.

- (ii) A "Notice of Termination for Good Reason" shall mean a notice that shall indicate the specific termination provision or provisions relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The Notice of Termination for Good Reason shall provide for a date of termination not less than thirty (30) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(A) or (B), the date may be twenty (20) days after the giving of such notice.

(e) Termination by the Company without Cause. The Company may terminate Executive's employment hereunder without Cause at any time upon written notice to Executive.

(f) Effect of Termination. Upon any termination of employment for any reason, Executive shall immediately resign from all Board memberships and other positions with the Company or any of its subsidiaries held by him at such time.

6. Compensation Following Termination of Employment.

In the event that Executive's employment hereunder is terminated in a manner as set forth in Section 5 above, Executive shall be entitled to the compensation and benefits provided under this Section 6, in each case subject to potential reduction as may be required by Section 22, as applicable to the form of termination:

(a) Termination by Reason of Death. In the event that Executive's employment is terminated by reason of Executive's death, the Company shall pay the following amounts to Executive's beneficiary or estate:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of employment termination, and any earned but unpaid bonuses for any prior calendar year. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment for the calendar year of his employment termination to the extent such awards are made to other senior executives of the Company and paid at the same time as other senior executives are paid.

- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.

(b) Termination by Reason of Total Disability. In the event that Executive's employment is terminated by the Company by reason of Executive's Total Disability (as determined in accordance with Section 5(b)), the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment for the calendar year of his employment termination to the extent such awards are made to other senior executives of the Company and paid at the same time as other senior executives are paid.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(c) Termination for Cause. In the event that Executive's employment is terminated by the Company for Cause, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(d) Voluntary Termination by Executive. In the event that Executive voluntarily terminates employment other than for Good Reason, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be

entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(e) Termination by the Company Without Cause Outside a Change in Control Period; Termination by Executive for Good Reason Outside a Change in Control Period. In the event that Executive's employment is terminated by the Company outside a Change in Control Period (as defined in Section 7 below) for reasons other than death, Total Disability or Cause, or Executive terminates his employment for Good Reason outside of a Change in Control Period, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) Subject to Executive's execution of the Release (as defined in Section 7), Executive shall be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives of the Company, pro-rated for the fiscal year in which the Executive's employment is terminated.
- (iv) Subject to Executive's execution of the Release (as defined in Section 7), an amount equal to two (2) times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case, as then in effect), of which one-half of such amount shall be paid in a lump sum within the calendar quarter in which the 60th day following Executive's employment termination date falls and one-half of such amount shall be paid during the two (2) year period beginning in the calendar quarter within which the 60th day following Executive's employment termination date falls and continuing at the same time and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
- (v) Subject to Executive's execution of the Release (as defined in Section 7) and Executive's completion of required enrollment elections, the Company will continue for Executive and Executive's spouse and eligible dependents coverage under the Company's health benefit plan and disability benefit plans, in which Executive was a participant at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) twenty-four (24) months after the employment termination date; (B) Executive's death (provided that benefits provided to Executive's spouse and dependents shall not terminate until

twenty-four (24) months after the employment termination date); or (C) with respect to any particular plan, the date Executive becomes eligible to participate in a comparable benefit provided by a subsequent employer. In the event that Executive's continued participation in any such Company plan is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under this paragraph on a basis which provides Executive with no additional after-tax cost.

(f) Suspension and Refund of Termination Benefits for Subsequently Discovered Cause. Notwithstanding any provision of this Agreement to the contrary, if within one (1) year of Executive's employment termination date for any reason other than for Cause, it is determined by the Company that Executive could have been terminated for Cause, then to the extent permitted by law:

- (i) the Company may elect to cancel any and all payments of any benefits otherwise due Executive, but not yet paid, under this Agreement or otherwise; and
- (ii) upon written demand by the Company, Executive shall refund to the Company any amounts, plus interest, previously paid by Company to Executive pursuant to Subsections 6(e)(iii), 6(e)(iv) or 6(e)(v), less one thousand dollars (\$1,000) which Executive shall be entitled to retain as fully sufficient consideration to support and maintain in effect any contractual obligations that Executive has to the Company prior to the refund, including the Release as defined herein.

7. Resignation by Executive for Good Reason or Termination by Company Without Cause During a Change in Control Period.

(a) Certain Terminations During a Change in Control Period. Subject to reduction required by Section 22, in the event a Change in Control occurs and (x) Executive terminates his employment for Good Reason during a Change in Control Period, or (y) the Company terminates Executive's employment without Cause (and for reason other than Death of Total Disability) during a Change in Control Period, the Company shall, subject to Executive's execution of the Release (as defined in this Section 7), pay the following amounts to Executive:

- (i) The payments and benefits provided for in Section 6(e)(iv) and (v) in the same form as provided for therein.
- (ii) Executive shall also receive a bonus or incentive compensation payment for the calendar year of the employment termination, payable at 100% of the maximum bonus available to Executive, pro-rated as of the employment termination date. Such bonus payment shall be payable within five (5) days after the later of the effective date of Executive's termination or the Change in Control.

(b) Certain Definitions.

- (i) For purposes of this Agreement, "Change in Control" means the first to occur on or after the date on which this Agreement is first signed, the occurrence of any of the following events:

- (A) any Person, or Persons acting as a group (within the meaning of Section 409A of the Internal Revenue Code), directly or indirectly, including by purchases, mergers, consolidation or otherwise, acquires ownership of securities of the Company that, together with stock held by such Person or Persons, represents fifty percent (50%) or more of the total voting power or total fair market value of the Company's then outstanding securities;
 - (B) any Person, or Persons acting as a group (within the meaning of Section 409A of the Internal Revenue Code), acquires, (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) directly or indirectly, including by purchases, merger, consolidation or otherwise, ownership of the securities of the Company that represent thirty percent (30%) or more of the total voting power of the Company's then outstanding voting securities;
 - (C) the following individuals cease for any reason to constitute a majority of the number of directors then serving during any 12-month period: individuals who, at the beginning of the 12-month period, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating or the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least a majority of the directors before the date of such appointment or election or whose appointment, election or nomination for election was previously so approved or recommended;
 - (D) a Person or Persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions, other than a sale or disposition by the Company of such assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by the Company or by the stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.
- (ii) For purposes of this Agreement, "Change in Control Period" means the period commencing on the date occurring six months immediately prior to the date on which a Change in Control occurs and ending on the second anniversary of the date on which a Change in Control occurs.
 - (iii) For purposes of this Agreement, "Exchange Act" means the Securities and Exchange Act of 1934, as amended from time to time.

- (iv) For purposes of this Section 7, “Person” shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an employee benefit plan of the Company, (4) an underwriter temporarily holding securities pursuant to an offering of such securities or (5) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.
- (v) For purposes of this Agreement, “Release” means that specific document which the Company shall present to Executive for consideration and execution after any applicable termination of employment, wherein if he agrees to such, he will irrevocably and unconditionally release and forever discharge the Company, its subsidiaries, affiliates and related parties from any and all causes of action which Executive at that time had or may have had against the Company (excluding any claim for indemnity under this Agreement, any claim under state workers’ compensation or unemployment laws, or any claim under the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”)).

8. No Other Benefits or Compensation. Except as may be provided under this Agreement, or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive’s employment termination or resignation, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such employment termination or resignation.

9. No Mitigation. In the event of any termination of employment hereunder, Executive shall be under no obligation to seek other employment, and there shall be no offset against any amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

10. Protective Covenants. In reliance upon Executive’s promise to abide by the various protective covenants and restrictions provided for below, the Company will continue to provide Executive with one or more of the following: (i) portions of the Company’s Confidential Information (through a computer password or other means) and updates thereto; (ii) authorization to communicate with customers and prospective customers, and other business relationship providers, to help Executive develop goodwill for Company; and/or (iii) authorization to participate in specialized training related to Company’s business. Executive agrees that each of Executive’s covenants in Section 10 of this Agreement (the “Protective Covenants”) is reasonable and necessary to protect a legitimate business interest of the Company, and that no one restriction or obligation (such as the confidentiality obligations) would be sufficient to protect the Company’s interests standing alone due to the variety of different interests involved, the difficulty of identifying and addressing a breach before irreparable harm has occurred, and

the need to prevent irreparable harm. Employee understands and agrees that one purpose of this Agreement is to enhance, maintain, and not diminish, all common law and contract protections that have been in effect for the parties concerning Confidential Information that Employee has received in the past. In addition, Executive agrees that any and all rights Executive may have to incentive compensation, stock or stock-related compensation, and/or severance compensation, whether provided for in this Agreement or elsewhere, are provided in reliance upon Executive's agreement to abide by and not challenge the validity of the Protective Covenants described below.

(a) Company Property, Computer Systems, and Inventions. All written materials, records, data, and other documents prepared or possessed by Executive during Executive's employment with the Company are the Company's property. Executive understands that access to the Company's computer systems is authorized for activities that are consistent with the business purposes of the Company, that benefit the Company (consistent with Company policies and/or guidelines as they may be modified from time to time), and that do not knowingly cause harm to the Company. The use of the Company computer systems to pursue a competing enterprise, or prepare to compete with the Company, is unauthorized and strictly prohibited. All information, ideas, concepts, improvements, discoveries, and inventions that are conceived, made, developed, or acquired by Executive individually or in conjunction with others during Executive's employment (whether during business hours or not and whether on the Company's premises or not) which relate to or are derived from the Company's business, products, property, resources or services are the Company's sole and exclusive property. Executive does hereby grant and assign to the Company (or its nominee) Executive's entire right, title and interest in and to all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, and ideas of commercial use or value that either: (i) relate to the Company's business, or actual or demonstrably anticipated research or development activity of the Company; or (ii) are derived from, suggested by, or result of work performed for the Company, or were created, discovered, or conceived with the aid of Company property ("Company IP"). While employed, and as necessary thereafter, Executive will assist Company to obtain patents or copyrights on Company IP, and will upon request execute all documents and otherwise cooperate in the Company's efforts to obtain the copyrights, patents, licenses, and other rights and interests that would be necessary to secure for the Company the complete benefit of Company IP. To the extent state law where Executive resides requires it (such as under Cal. Lab. Code, § 2870, or comparable laws), Executive is notified that **no provision in this Agreement requires Executive to assign any of rights to an invention for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (i) the invention relates at the time of conception or reduction to practice of the invention, (A) to the business of the Company, or (B) to the Company's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by Executive for the Company.** This paragraph is intended to compliment and supplement, not replace, any additional written agreement(s) the parties may have regarding Company IP. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps, and all other documents, data, or materials of any type embodying such information, ideas, concepts, improvements, discoveries, and inventions are the Company's property. At the termination of Executive's employment with the Company for any reason, Executive shall return all of the Company's documents, data, or other Company property to the Company and shall not retain any copies of such property, in any form (tangible or intangible), without the express written consent of the Company.

(b) Confidential Information; Non-Disclosure. Executive acknowledges that the business of the Company is highly competitive and that Executive's position is one where the Company will provide Executive with access to "Confidential Information" relating to the business of the Company and its affiliates. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company and its affiliates in maintaining their competitive advantage. Executive understands that it shall be his responsibility to handle and use "Confidential Information" in a manner that does not violate Company policies or knowingly cause harm to the Company. Accordingly, during employment and for so long thereafter as the information remains qualified as "Confidential Information," Executive agrees to maintain the confidentiality of "Confidential Information" and not to engage in any unauthorized use or disclosure of such information.

For purposes of this Agreement, "Confidential Information" refers to an item of information, or a compilation of information, in any form (tangible or intangible), related to the Company's business that (i) the Company has not intentionally made public or authorized public disclosure of, and (ii) is not generally known to the public or to other persons who might obtain value or competitive advantage from its disclosure or use, through proper means. Confidential Information will not lose its protected status under this Agreement if it becomes known to the public or to other persons through improper means such as the unauthorized use or disclosure of the information by Executive or another person. Confidential Information includes, but is not limited to: (i) Market Business Strategy (MBS) data, the Company Transformation Change processes, MBS Plans, Business Improvement Process (BIP), Fleet Planning, Public Sector Proformas, Letters of Intent, Route Manager and District Manager Training Programs, internal information regarding acquisition targets, divestiture targets, and mergers, Real Estate Market Area Analysis Mapping and Real Estate Owned and Leased Property Data and Reporting; (ii) Company's business plans and analysis, customer and prospect lists; compilations of names and other individualized information concerning customers, investors, and business affiliates (such as contact name, service provided, pricing for that customer, type and amount of services used, credit and financial data, and/or other information relating to the Company's relationship with that customer); pricing strategies and price curves; marketing plans and strategies, research and development data, buying practices, human resource information and personnel files (including salaries of management level personnel), financial data, operational data, methods, techniques, technical data, know-how, innovations, computer programs, un-patented inventions, and trade secrets; and (iii) information about the business affairs of third parties (including, but not limited to, clients and acquisition targets) that such third parties provide to Company in confidence.

Confidential Information will include trade secrets, but an item of Confidential Information need not qualify as a trade secret to be protected by this Agreement. Company's confidential exchange of information with a third party for business purposes will not remove it from protection under this Agreement. Executive acknowledges that items of Confidential Information are Company's valuable assets and have economic value, actual or potential, because they are not generally known by the public or others who could use them to their own economic benefit and/or to the competitive disadvantage of the Company, and thus, should be treated as Company's trade secrets.

(c) Unfair Competition Restrictions. Ancillary to the rights provided to Executive following employment termination, the Company's provision of Confidential Information, specialized training, and/or goodwill support to Executive, and Executive's agreements regarding the use of same, and in order to protect the value of any restricted stock, stock options, or other stock-related compensation, training, goodwill support and/or the Confidential Information described above, the Company and Executive agree to the following provisions against unfair competition. Executive agrees that for a period of two (2) years following the termination of employment for any reason ("Restricted Term"), Executive will not, directly or indirectly, for Executive or for others, anywhere in the United States (including all parishes in Louisiana, and Puerto Rico), Canada, the United Kingdom, or the People's Republic of China (the "Restricted Area") do the following, unless expressly authorized to do so in writing by the Chief Executive Officer of the Company:

Engage in, or assist any person, entity, or business engaged in, the selling or providing of products or services that would displace the products or services that (i) the Company is currently in the business of providing and was in the business of providing, or was planning to be in the business of providing, at the time Executive was employed with the Company, and (ii) that Executive had involvement in or received Confidential Information about in the course of employment; the foregoing is expressly understood to include, without limitation, the business of the collection, transfer, recycling and resource recovery, or disposal of solid waste, hazardous or other waste, including the operation of waste-to-energy facilities.

During the Restricted Term, Executive cannot engage in any of the enumerated prohibited activities in the Restricted Area by means of telephone, telecommunications, satellite communications, correspondence, or other contact from outside the Restricted Area. Executive further understands that the foregoing restrictions may limit his ability to engage in certain businesses during the Restricted Term, but acknowledges that these restrictions are necessary to protect the Confidential Information the Company has provided to Executive.

A failure to comply with the foregoing restrictions will create a presumption that Executive is engaging in unfair competition. Executive agrees that this Section defining unfair competition with the Company does not prevent Executive from using and offering the skills that Executive possessed prior to receiving access to Confidential Information, confidential training, and knowledge from the Company. This Agreement creates an advance approval process, and nothing herein is intended, or will be construed as, a general restriction against the pursuit of lawful employment in violation of any controlling state or federal laws. Executive shall be permitted to engage in activities that would otherwise be prohibited by this covenant if such activities are determined in the sole discretion of the Chief Executive Officer of the Company in writing to be of no material threat to the legitimate business interests of the Company.

(d) Non-Solicitation of Customers. For the Restricted Term, Executive will not, in person or through the direction or control of others, call on, service, or solicit competing business from a Covered Customer, or induce or encourage any such Covered Customer or other source of ongoing business to stop doing business with Company. A “Covered Customer” is any Company customer (person or entity) for which Executive had business-related contact or dealings with, or received Confidential Information about, in the two (2) year period preceding the termination of Executive’s employment with the Company for any reason.

(e) Non-Solicitation of Employees. During Executive’s employment, and for the Restricted Term, Executive will not, in person or through the direction or control of others, call on, solicit, encourage, or induce any other employee or officer of the Company or its affiliates whom Executive had contact with, knowledge of, or association within the course of employment with the Company to terminate his or her employment, and will not assist any other person or entity in such a solicitation.

(f) Non-Disparagement. During Executive’s employment, and for the Restricted Term, Executive covenants and agrees that Executive shall not engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or good will of the Company, its management, or of management of corporations affiliated with the Company.

(g) Protected Communications. Nothing in this Agreement (particularly nothing in Paragraphs 10(b) and (f) regarding non-disclosure and non-disparagement) is intended or to be construed to prohibit or interfere with any and all rights Executive may have to report a violation of state or federal law to appropriate federal or state law enforcement officials, or to cooperate with a duly authorized government investigation. In addition, nothing herein prohibits Executive from engaging in a disclosure of information that is required by law (such as by court order or subpoena). Provided, however, that if Executive believes that the disclosure of Confidential Information is required by a subpoena, court order, or similar legal mandate, then Executive will provide the Company reasonable notice and opportunity to protect any legitimate business interests it may have in maintaining Confidential Information as confidential (through protective order or other means) before engaging in such a disclosure.

11. Enforcement of Protective Covenants.

(a) Termination of Employment and Forfeiture of Compensation. Executive agrees that any breach by Executive of any of the Protective Covenants set forth in Section 10 during Executive’s employment with the Company shall be grounds for immediate employment termination of Executive for Cause pursuant to Section 5(c)(i), which shall be in addition to and not exclusive of any and all other rights and remedies the Company may have against Executive.

In the event that Executive violates one of the Protective Covenants, (i) the Company shall have the right to immediately cease making any payments that it may otherwise owe to

Executive, if any, (ii) Executive will forfeit any remaining rights to payments or continuing benefits provided by this Agreement, if there are any, and (iii) upon the Company's demand, Executive will refund to the Company any amounts, plus interest, previously paid by Company to Executive pursuant to Subsections 6(e)(iii), 6(e)(iv), 6(e)(v), 7(a)(i) or 7(a)(ii), less one thousand dollars (\$1,000.00) which Executive shall be entitled to retain as fully sufficient consideration to support and maintain in effect any contractual obligations that Executive has to the Company prior to the refund, including the Release as defined herein.

(b) Right to Injunction. Executive acknowledges that a breach of a Protective Covenant set forth in Section 10 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages will be inadequate. Therefore, in the event of any breach or anticipatory breach of a Protective Covenant by Executive, Executive and the Company agree that the Company shall be entitled to seek the following particular forms of relief, in addition to remedies otherwise available to it at law or equity: (i) injunctions, both preliminary and permanent, enjoining or restraining such breach or anticipatory breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (ii) recovery of all reasonable sums expended and costs, including reasonable attorney's fees, incurred by the Company to pursue the remedies provided for in this Section of the Agreement to enforce the Protective Covenants.

(c) Reformation of Covenants. The Protective Covenants set forth in Section 10 constitute a series of separate but ancillary covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the Protective Covenants set forth in Section 10 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to provide for a restriction with the maximum time, geographic, or occupational limitations permitted by such laws to protect the Company's business interests. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

(d) Survival. Executive and the Company further agree that the protective Covenants set forth in Section 10 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the Protective Covenants. The Protective Covenants will survive the termination of Executive's employment with Company, regardless of the cause of the termination. If Executive violates one of the Protective Covenants for which there is a specific time limitation, the time period for that restriction will be extended by one day for each day Executive violates it, up to a maximum extension equal to the length of time prescribed for the restriction, so as to give Company the full benefit of the bargained-for length of forbearance. If Executive becomes employed with an affiliate of the Company without signing a new agreement, the affiliate will step into Company's position under this Agreement, and will be entitled to the same protections and enforcement rights as the Company.

12. Indemnification.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Delaware law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. This provision includes the obligation and undertaking of the Executive to reimburse the Company for any fees advanced by the Company on behalf of the Executive should it later be determined that Executive was not entitled to have such fees advanced by the Company under Delaware law. The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Period in the same amount and to the same extent as the Company covers its other officers and directors.

13. Arbitration.

The parties agree that any dispute relating to this Agreement, or to the breach of this Agreement, arising between Executive and the Company shall be settled by arbitration in accordance with the Federal Arbitration Act and the commercial arbitration rules of the American Arbitration Association ("AAA"), or any other mutually agreed upon arbitration service; provided, however, that temporary and preliminary injunctive relief to enforce the covenants contained in Section 10 of this Agreement, and related expedited discovery, may be pursued in a court of law to provide temporary injunctive relief pending a final determination of all issues of final relief through arbitration. The arbitration proceeding, including the rendering of an award, shall take place in Houston, Texas, and shall be administered by the AAA (or any other mutually agreed upon arbitration service). The arbitrator shall be jointly selected by the Company and Executive within thirty (30) days of the notice of dispute, or if the parties cannot agree, in accordance with the commercial arbitration rules of the AAA (or any other mutually agreed upon arbitration service). All fees and expenses associated with the arbitration shall be borne equally by Executive and the Company during the arbitration, pending final decision by the arbitrator as to who should bear fees, unless otherwise ordered by the arbitrator. The arbitrator shall not be authorized to create a cause of action or remedy not recognized by applicable state or federal law. The arbitrator shall be authorized to award final injunctive relief. The award of the arbitrator shall be final and binding upon the parties without appeal or review, except as permitted by the arbitration laws of the State of Texas. The award, inclusive of any and all injunctive relief provided for therein, shall be enforceable through a court of law upon motion of either party.

14. Requirement of Timely Payments.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

15. Withholding of Taxes.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

16. Source of Payments.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

17. Assignment.

This Agreement shall inure to the benefit of the Company, its subsidiaries, affiliates, successors, and assigns. Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of Executive, and Executive's heirs, representatives, and successors. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's estate).

18. Entire Agreement; Amendment.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company; provided, however, that if all or any material part of the Protective Covenants provided for in this Agreement are deemed void or unenforceable, then any prior agreement between the parties covering the same or substantially similar restrictions on Executive (such as, but not limited to the Company's prior Employment Agreement(s) or Loyalty And Confidentiality Agreement with Executive) shall resume effect to the extent necessary to maintain protection of the Company's legitimate protectable interests covered by the Protective Covenants. This Agreement may not be amended except by a written agreement signed by both parties. No material term or obligation of a party may be waived except through written agreement by the party with the authority to enforce such right or obligation.

19. Governing Law and Venue.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions. The parties agree that any legal action arising from this Agreement that is not required to be resolved through arbitration pursuant to Section 13 must be pursued in a court of competent jurisdiction that is located in Houston, Texas.

20. Notices.

Any notice, consent, request, or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company:	Waste Management, Inc. 1001 Fannin, Suite 4000 Houston, Texas 77002 Attention: General Counsel
To Executive:	At the address for Executive set forth below.

21. Miscellaneous.

(a) Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(b) Severability. Subject to Section 11 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

(c) Headings. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.

(d) Rules of Construction. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.

(e) Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

22. Potential Limitation on Severance Benefits.

(a) Maximum Severance Amount. Notwithstanding any provision in this Agreement to the contrary, in the event of a qualifying termination (or resignation) under Section 6(e) or Section 7 of this Agreement it is determined by the Company that the Severance Benefits (as defined in Section 22(b) below) would exceed 2.99 times the sum of the Executive's then current base salary and target bonus (the "Maximum Severance Amount"), then the aggregate

present value of the Severance Benefits provided to the Executive shall be reduced by the Company to the Reduced Amount. The “Reduced Amount” shall be an amount, expressed in present value, that maximizes the aggregate present value of the Severance Benefits without exceeding the Maximum Severance Amount.

(b) Severance Benefits. For purposes of determining Severance Benefits under Section 22(a) above, Severance Benefits means the present value of payments or distributions by the Company, its subsidiaries or affiliated entities to or for the benefit of the Executive (whether paid or provided pursuant to the terms of this Agreement or otherwise), and

(A) including: (i) cash amounts payable by the Company in the event of termination of Executive’s employment; and (ii) the present value of benefits or perquisites provided for periods after termination of employment (but excluding benefits or perquisites provided to employees generally); and

(B) excluding: (i) payments of salary, bonus or performance award amounts that had accrued at the time of termination; (ii) payments based on accrued qualified and non-qualified deferred compensation plans, including retirement and savings benefits; (iii) any benefits or perquisites provided under plans or programs applicable to employees generally; (iv) amounts paid as part of any agreement intended to “make-whole” any forfeiture of benefits from a prior employer; (v) amounts paid for services following termination of employment for a reasonable consulting agreement for a period not to exceed one year; (vi) amounts paid for post-termination covenants (such as a covenant not to compete); (vii) the value of accelerated vesting or payment of any outstanding equity-based award; and (viii) any payment that the Board or any committee thereof determines in good faith to be a reasonable settlement of any claim made against the Company.

(c) Possible 280G Reduction. Following application of Section 22(a), in the event that the payment of the remaining Severance Benefits to Executive plus any other payments to Executive which would be subject to Internal Revenue Code Section 280G (including any reduced Severance Benefits) (“280G Severance Benefits”) would be subject (in whole or part), to any excise tax imposed under Internal Revenue Code Section 4999 (the “Excise Tax”), then the cash portion of the 280G Severance Benefits shall first be further reduced, and the non-cash 280G Severance Benefits shall thereafter be further reduced, to the extent necessary so that no portion of the 280G Severance Benefits is subject to the Excise Tax, but only if (i) the amount of the 280G Severance Benefits to be received by Executive, as so reduced by this Section 22(c) and after subtracting the amount of federal, state and local income taxes on such reduced 280G Severance Benefits (after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced 280G Severance Benefits) is greater than or equal to (ii) the amount of the 280G Severance Benefits to be received by Executive without such reduction by this Section 22(c) after subtracting the amount of federal, state and local income taxes on such 280G Severance Benefits and the amount of the Excise Tax to which Executive would be subject in respect of such unreduced 280G Severance Benefits (after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced 280G Severance Benefits).

(d) Calculation of 280G Severance Benefits. For purposes of determining the 280G Severance Benefits, (i) no portion of the 280G Severance Benefits, the receipt or enjoyment of which Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Internal Revenue Code Section 280G(b), shall be taken into account, (ii) no portion of the 280G Severance Benefits shall be taken into account which, in the opinion of tax counsel (“Tax Counsel”) who is reasonably acceptable to Executive and selected by the accounting firm (the “Auditor”) which was, immediately prior to the Change in Control, the Company’s independent auditor, does not constitute a “parachute payment” within the meaning of Internal Revenue Code Section 280G(b) (2) (including by reason of Internal Revenue Code Section 280G(b)(4)(A)); (iii) no portion of the 280G Severance Benefits shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of Internal Revenue Code Section 280G(b)(4) (B), in excess of the “base amount” (as defined in Internal Revenue Code Section 280G(b)(3)) allocable to such reasonable compensation, and (iv) the value of any non-cash benefit or any deferred payment or benefit included in the 280G Severance Benefits shall be determined by the Auditor in accordance with the principles of Internal Revenue Code Sections 280G(d)(3) and (4).

(e) Determination of Present Value. For purposes of this Section 22, the present value of Severance Benefits and 280G Severance Benefits 280G shall be determined in accordance with Internal Revenue Code Section 280G(d)(4).

23. Compliance with Internal Revenue Code Section 409A.

(a) Compliance. It is the intention of the Company and Executive that this Employment Agreement not result in unfavorable tax consequences to Executive under Internal Revenue Code Section 409A. This Section 23 does not create an obligation on the part of Company to modify the Employment Agreement in the future and does not guarantee that the amounts or benefits owed under the Employment Agreement will not be subject to interest and penalties under Internal Revenue Code Section 409A.

(b) Payment Timing. The payments of severance under Sections 6(e)(iii) and (iv) and Sections 7(a)(i) and (ii) above (“Separation Payments”) are designated as separate payments for purposes of the short-term deferral rules under Treasury Regulation Section 1.409A-1(b)(4)(i)(F), and, with respect to such Separation Payments, the exemption for involuntary terminations under separation pay plans under Treasury Regulation Section 1.409A-1(b)(9)(iii). As a result, (A) Separation Payments that are by their terms scheduled to be made on or before March 15th of the calendar year following the applicable year of termination, (B) any additional Separation Payments that are made on or before December 31st of the second calendar year following the year of Executive’s termination and do not exceed the lesser of two times Base Salary or two times the limit under Internal Revenue Code Section 401(a)(17) then in effect, and (C) any Separation Payments under Section 7(a) made on account of a 409A Change in Control within the meaning of Internal Revenue Code Section 409A are exempt from the requirements of Internal Revenue Code Section 409A. If Executive is designated as a “specified employee” within the meaning of Internal Revenue Code Section 409A, then to the extent the Disability Payments and Separation Payments to be made during the first six month period following Executive’s termination of employment exceed such exempt amounts, the payments shall be withheld and the amount of the payments withheld will be paid in a lump sum, with interest (at

the Company's then applicable overnight rate), on the date that is six (6) months and one (1) day after Executive's termination. Continued medical benefits under Sections 6(e)(v) and 7(a)(i) above are intended to satisfy the exemption for medical expense reimbursements under Treasury Regulation Section 1.409A-1(b)(9)(v)(B).

IN WITNESS WHEREOF, this Agreement is EXECUTED as of the date first set forth above and effective as set forth therein.

JOHN MORRIS
("Executive")

/s/ John Morris

John Morris
(Address)

WASTE MANAGEMENT, INC.
(The "Company")

By: /s/ David P. Steiner

David P. Steiner
President and Chief Executive Officer

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into on July 5, 2012 but effective as of May 10, 2012, by and between Waste Management, Inc. (the "Company") and Mark E. Schwartz (the "Executive").

1. Employment.

The Company shall employ Executive, and Executive shall be employed by the Company upon the terms and subject to the conditions set forth in this Agreement.

Subject to Section 18 below, Executive acknowledges and represents that, any and all prior employment agreements, including without limitation that certain Employment Agreement between he and Waste Management, Inc. dated November 15, 2000, and the Amendment thereto dated December 31, 2002, is terminated, and that any and all obligations of the Company created thereunder, whether express or implied, are null and void and of no further force or effect, and that the only rights, obligations and duties between the Company and Executive are those expressly set forth in this Agreement.

2. Term of Employment.

The period of Executive's employment under this Agreement began on May 10, 2012 ("Employment Date"), and may be terminated by either party pursuant to Section 5 below. The period during which Executive is employed hereunder shall be referred to as the "Employment Period."

3. Duties and Responsibilities.

(a) Executive shall serve as the Senior Vice President, Human Resources. In such capacity, Executive shall perform such duties and have the power, authority, and functions consistent with such position, as may be deemed appropriate for the position and assigned to Executive from time to time by the Chief Executive Officer, the Executive Vice-President of Growth, Innovation and Field Support or the Board of Directors (the "Board") of the Company.

(b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and its affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 10 of this Agreement), be involved in charitable and professional activities, and, with the prior written consent of the Board, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder or create a conflict of interest (however, the Board does not typically allow officers to serve on more than one public company board at a time).

4. Compensation and Benefits.

(a) **Base Salary.** During the Employment Period, the Company shall pay Executive a base salary at the annual rate of Three Hundred Seventy Five Thousand and 00/100ths Dollars (\$375,000.00) per year, or such higher rate as may be determined from time to time by the

Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced except by mutual agreement.

(b) Annual Bonus. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company, as established by the Management Development and Compensation Committee ("Compensation Committee") of the Board from time to time. Executive's target annual bonus under this Agreement will be seventy-five percent (75%) of his Base Salary in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 150% of Base Salary (*i.e.*, a maximum possible bonus of two times the Target Bonus), and will be determined based upon (i) the achievement of certain corporate financial and/or performance goals, as may be established and approved from time to time by the Compensation Committee of the Board, and (ii) the achievement of personal performance goals as may be established by Executive's immediate supervisor. Executive's annual bonus for calendar year 2012 will be prorated between the time he spent as Vice-President and Assistant General Counsel and the time he spent as Senior Vice President, Human Resources, in each case calculated using the applicable financial and operational performance objectives, salary, and target bonus for each such position. The annual bonus will be paid at such time and in such manner as set forth in the annual incentive compensation plan document.

(c) Benefit Plans and Vacation. Subject to the terms of such plans, Executive shall be eligible to participate in or receive benefits under any profit sharing plan, salary deferral plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to similarly-situated executive employees. The Company shall not be obligated to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, so long as such changes are similarly applicable to similarly-situated employees generally.

During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. Vacation not taken in the calendar year in which it is granted cannot be carried forward to any subsequent year.

(d) Expense Reimbursement. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of his duties hereunder in accordance with the Company's customary practices applicable to executive officers. The reimbursement of expenses during a year will not affect the expenses eligible for reimbursement in any other year. In no event shall any expense be reimbursed after the last day of the year following the year in which the expense was incurred.

(e) Other Perquisites. Executive shall be entitled to all perquisites provided to Senior Vice Presidents of the Company as approved by the Management Development and Compensation Committee of the Board, and as such perquisites may exist from time to time.

5. Termination of Employment.

Executive's employment hereunder may be terminated during the Employment Period under the following circumstances:

(a) Death. Executive's employment hereunder shall terminate upon Executive's death.

(b) Total Disability. The Company may terminate Executive's employment hereunder upon Executive's becoming "Totally Disabled." For purposes of this Agreement, Executive shall be considered "Totally Disabled" if Executive has become physically or mentally disabled so as to render Executive incapable of performing the essential functions of his position (with or without reasonable accommodations) and such disability is expected to result in death or to last for a continuous period of at least 12 months, provided that such condition constitutes a "disability" within the meaning of Section 409A of the Internal Revenue Code. Executive's receipt of disability benefits under the Company's long-term disability plan or receipt of Social Security disability benefits shall be deemed conclusive evidence of Total Disability for purpose of this Agreement.

(c) Termination by the Company for Cause. The Company may terminate Executive's employment hereunder for "Cause" at any time after providing a Notice of Termination for Cause to Executive.

- (i) For purposes of this Agreement, the term "Cause" means any of the following: Executive's (A) willful or deliberate and continual refusal to perform Executive's employment duties reasonably requested by the Company after receipt of written notice to Executive of such failure to perform, specifying such failure (other than as a result of Executive's sickness, illness or injury) and Executive's failure to cure such nonperformance within ten (10) days of receipt of said written notice; (B) breach of any statutory or common law duty of loyalty to the Company; (C) conviction of, or plea of *nolo contendere* to, any felony; (D) willful or intentional cause of material injury to the Company, its property, or its assets; (E) disclosure or attempted disclosure to any unauthorized person(s) of the Company's proprietary or confidential information; (F) material violation or a repeated and willful violation of the Company's policies or procedures, including but not limited to, the Company's Code of Business Conduct and Ethics (or any successor policy) then in effect; or (G) breach of any of the covenants set forth in Section 10 hereof.
- (ii) For purposes of this Agreement, the phrase "Notice of Termination for Cause" shall mean a written notice that shall indicate the specific termination provision or provisions in Section 5(c)(i) relied upon, and shall set forth in reasonable detail the facts and circumstances which provide the basis for termination for Cause.

(d) Voluntary Termination by Executive. Executive may terminate his employment hereunder with or without Good Reason at any time upon written notice to the Company.

- (i) A termination for "Good Reason" means a resignation of employment by Executive by written notice ("Notice of Termination for Good Reason") given to the Company's Chief Executive Officer within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are substantially corrected prior to the date of termination specified in the Notice of Termination

for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (A) the Company materially diminishes Executive's core duties or responsibility for those core duties, so as to effectively cause Executive to no longer be performing the duties of his position (except in each case in connection with the termination of Executive's employment for Death, Total Disability, or Cause, or temporarily as a result of Executive's illness or other absence); (B) in the event of the Company's becoming a fifty percent or more subsidiary of any other entity, the Company materially diminishes the duties, authority or responsibilities of the person to whom Executive is required to report; (C) removal or the non-reelection of the Executive from the officer position with the Company specified herein, or removal of the Executive from any of his then officer positions; (D) any material breach by the Company of any provision of this Agreement; or (E) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder, resulting in a material negative change in the employment relationship.

- (ii) A "Notice of Termination for Good Reason" shall mean a notice that shall indicate the specific termination provision or provisions relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The Notice of Termination for Good Reason shall provide for a date of termination not less than thirty (30) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(A) or (B), the date may be twenty (20) days after the giving of such notice.

(e) Termination by the Company without Cause. The Company may terminate Executive's employment hereunder without Cause at any time upon written notice to Executive.

(f) Effect of Termination. Upon any termination of employment for any reason, Executive shall immediately resign from all Board memberships and other positions with the Company or any of its subsidiaries held by him at such time.

6. Compensation Following Termination of Employment.

In the event that Executive's employment hereunder is terminated in a manner as set forth in Section 5 above, Executive shall be entitled to the compensation and benefits provided under this Section 6, in each case subject to potential reduction as may be required by Section 22, as applicable to the form of termination:

(a) Termination by Reason of Death. In the event that Executive's employment is terminated by reason of Executive's death, the Company shall pay the following amounts to Executive's beneficiary or estate:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement,

any accrued but unused vacation to the date of employment termination, and any earned but unpaid bonuses for any prior calendar year. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment for the calendar year of his employment termination to the extent such awards are made to other senior executives of the Company and paid at the same time as other senior executives are paid.

- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.

(b) Termination by Reason of Total Disability. In the event that Executive's employment is terminated by the Company by reason of Executive's Total Disability (as determined in accordance with Section 5(b)), the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment for the calendar year of his employment termination to the extent such awards are made to other senior executives of the Company and paid at the same time as other senior executives are paid.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(c) Termination for Cause. In the event that Executive's employment is terminated by the Company for Cause, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(d) Voluntary Termination by Executive. In the event that Executive voluntarily terminates employment other than for Good Reason, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(c) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(e) Termination by the Company Without Cause Outside a Change in Control Period; Termination by Executive for Good Reason Outside a Change in Control Period. In the event that Executive's employment is terminated by the Company outside a Change in Control Period (as defined in Section 7 below) for reasons other than death, Total Disability or Cause, or Executive terminates his employment for Good Reason outside of a Change in Control Period, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any accrued but unused vacation to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits accrued through the date of termination to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) Subject to Executive's execution of the Release (as defined in Section 7), Executive shall be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives of the Company, pro-rated for the fiscal year in which the Executive's employment is terminated.
- (iv) Subject to Executive's execution of the Release (as defined in Section 7), an amount equal to two (2) times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case, as then in effect), of which one-half of such amount shall be paid in a lump sum within the calendar quarter in which the 60th day following Executive's employment termination date falls and one-half of such amount shall be paid during the two (2) year period beginning in the calendar quarter within which the 60th day following Executive's employment termination date falls and continuing at the same time and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
- (v) Subject to Executive's execution of the Release (as defined in Section 7) and Executive's completion of required enrollment elections, the Company will continue for Executive and Executive's spouse and eligible dependents coverage under the Company's health benefit plan and disability benefit plans, in which Executive was a participant at any time during the twelve-month period prior to

the date of termination, until the earliest to occur of (A) twenty-four (24) months after the employment termination date; (B) Executive's death (provided that benefits provided to Executive's spouse and dependents shall not terminate until twenty-four (24) months after the employment termination date); or (C) with respect to any particular plan, the date Executive becomes eligible to participate in a comparable benefit provided by a subsequent employer. In the event that Executive's continued participation in any such Company plan is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under this paragraph on a basis which provides Executive with no additional after-tax cost.

(f) Suspension and Refund of Termination Benefits for Subsequently Discovered Cause. Notwithstanding any provision of this Agreement to the contrary, if within one (1) year of Executive's employment termination date for any reason other than for Cause, it is determined by the Company that Executive could have been terminated for Cause, then to the extent permitted by law:

- (i) the Company may elect to cancel any and all payments of any benefits otherwise due Executive, but not yet paid, under this Agreement or otherwise; and
- (ii) upon written demand by the Company, Executive shall refund to the Company any amounts, plus interest, previously paid by Company to Executive pursuant to Subsections 6(e)(iii), 6(e)(iv) or 6(e)(v), less one thousand dollars (\$1,000) which Executive shall be entitled to retain as fully sufficient consideration to support and maintain in effect any contractual obligations that Executive has to the Company prior to the refund, including the Release as defined herein.

7. Resignation by Executive for Good Reason or Termination by Company Without Cause During a Change in Control Period.

(a) Certain Terminations During a Change in Control Period. Subject to reduction required by Section 22, in the event a Change in Control occurs and (x) Executive terminates his employment for Good Reason during a Change in Control Period, or (y) the Company terminates Executive's employment without Cause (and for reason other than Death of Total Disability) during a Change in Control Period, the Company shall, subject to Executive's execution of the Release (as defined in this Section 7), pay the following amounts to Executive:

- (i) The payments and benefits provided for in Section 6(e)(iv) and (v) in the same form as provided for therein.
- (ii) Executive shall also receive a bonus or incentive compensation payment for the calendar year of the employment termination, payable at 100% of the maximum bonus available to Executive, pro-rated as of the employment termination date. Such bonus payment shall be payable within five (5) days after the later of the effective date of Executive's termination or the Change in Control.

(b) Certain Definitions.

- (i) For purposes of this Agreement, "Change in Control" means the first to occur on or after the date on which this Agreement is first signed, the occurrence of any of the following events:

- (A) any Person, or Persons acting as a group (within the meaning of Section 409A of the Internal Revenue Code), directly or indirectly, including by purchases, mergers, consolidation or otherwise, acquires ownership of securities of the Company that, together with stock held by such Person or Persons, represents fifty percent (50%) or more of the total voting power or total fair market value of the Company's then outstanding securities;
 - (B) any Person, or Persons acting as a group (within the meaning of Section 409A of the Internal Revenue Code), acquires, (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) directly or indirectly, including by purchases, merger, consolidation or otherwise, ownership of the securities of the Company that represent thirty percent (30%) or more of the total voting power of the Company's then outstanding voting securities;
 - (C) the following individuals cease for any reason to constitute a majority of the number of directors then serving during any 12-month period: individuals who, at the beginning of the 12-month period, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating or the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least a majority of the directors before the date of such appointment or election or whose appointment, election or nomination for election was previously so approved or recommended;
 - (D) a Person or Persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions, other than a sale or disposition by the Company of such assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by the Company or by the stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.
- (ii) For purposes of this Agreement, "Change in Control Period" means the period commencing on the date occurring six months immediately prior to the date on which a Change in Control occurs and ending on the second anniversary of the date on which a Change in Control occurs.
 - (iii) For purposes of this Agreement, "Exchange Act" means the Securities and Exchange Act of 1934, as amended from time to time.

- (iv) For purposes of this Section 7, “Person” shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an employee benefit plan of the Company, (4) an underwriter temporarily holding securities pursuant to an offering of such securities or (5) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.
- (v) For purposes of this Agreement, “Release” means that specific document which the Company shall present to Executive for consideration and execution after any applicable termination of employment, wherein if he agrees to such, he will irrevocably and unconditionally release and forever discharge the Company, its subsidiaries, affiliates and related parties from any and all causes of action which Executive at that time had or may have had against the Company (excluding any claim for indemnity under this Agreement, any claim under state workers’ compensation or unemployment laws, or any claim under the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”)).

8. No Other Benefits or Compensation. Except as may be provided under this Agreement, or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive’s employment termination or resignation, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such employment termination or resignation.

9. No Mitigation. In the event of any termination of employment hereunder, Executive shall be under no obligation to seek other employment, and there shall be no offset against any amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

10. Protective Covenants. In reliance upon Executive’s promise to abide by the various protective covenants and restrictions provided for below, the Company will continue to provide Executive with one or more of the following: (i) portions of the Company’s Confidential Information (through a computer password or other means) and updates thereto; (ii) authorization to communicate with customers and prospective customers, and other business relationship providers, to help Executive develop goodwill for Company; and/or (iii) authorization to participate in specialized training related to Company’s business. Executive agrees that each of Executive’s covenants in Section 10 of this Agreement (the “Protective Covenants”) is reasonable and necessary to protect a legitimate business interest of the Company, and that no one restriction or obligation (such as the confidentiality obligations) would be sufficient to protect the Company’s interests standing alone due to the variety of different interests involved, the difficulty of identifying and addressing a breach before irreparable harm has occurred, and the need to prevent irreparable harm. Executive understands and agrees that one purpose of this Agreement is to enhance, maintain, and not diminish, all common law and contract protections that have been in effect for the parties concerning Confidential Information that Executive has

received in the past. In addition, Executive agrees that any and all rights Executive may have to incentive compensation, stock or stock-related compensation, and/or severance compensation, whether provided for in this Agreement or elsewhere, are provided in reliance upon Executive's agreement to abide by and not challenge the validity of the Protective Covenants described below.

(a) Company Property, Computer Systems, and Inventions. All written materials, records, data, and other documents prepared or possessed by Executive during Executive's employment with the Company are the Company's property. Executive understands that access to the Company's computer systems is authorized for activities that are consistent with the business purposes of the Company, that benefit the Company (consistent with Company policies and/or guidelines as they may be modified from time to time), and that do not knowingly cause harm to the Company. The use of the Company computer systems to pursue a competing enterprise, or prepare to compete with the Company, is unauthorized and strictly prohibited. All information, ideas, concepts, improvements, discoveries, and inventions that are conceived, made, developed, or acquired by Executive individually or in conjunction with others during Executive's employment (whether during business hours or not and whether on the Company's premises or not) which relate to or are derived from the Company's business, products, property, resources or services are the Company's sole and exclusive property. Executive does hereby grant and assign to the Company (or its nominee) Executive's entire right, title and interest in and to all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, and ideas of commercial use or value that either: (i) relate to the Company's business, or actual or demonstrably anticipated research or development activity of the Company; or (ii) are derived from, suggested by, or result of work performed for the Company, or were created, discovered, or conceived with the aid of Company property ("Company IP"). While employed, and as necessary thereafter, Executive will assist Company to obtain patents or copyrights on Company IP, and will upon request execute all documents and otherwise cooperate in the Company's efforts to obtain the copyrights, patents, licenses, and other rights and interests that would be necessary to secure for the Company the complete benefit of Company IP. To the extent state law where Executive resides requires it (such as under Cal. Lab. Code, § 2870, or comparable laws), Executive is notified that **no provision in this Agreement requires Executive to assign any of rights to an invention for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (i) the invention relates at the time of conception or reduction to practice of the invention, (A) to the business of the Company, or (B) to the Company's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by Executive for the Company.** This paragraph is intended to compliment and supplement, not replace, any additional written agreement(s) the parties may have regarding Company IP. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps, and all other documents, data, or materials of any type embodying such information, ideas, concepts, improvements, discoveries, and inventions are the Company's property. At the termination of Executive's employment with the Company for any reason, Executive shall return all of the Company's documents, data, or other Company property to the Company and shall not retain any copies of such property, in any form (tangible or intangible), without the express written consent of the Company.

(b) Confidential Information; Non-Disclosure. Executive acknowledges that the business of the Company is highly competitive and that Executive's position is one where the

Company will provide Executive with access to “Confidential Information” relating to the business of the Company and its affiliates. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company and its affiliates in maintaining their competitive advantage. Executive understands that it shall be his responsibility to handle and use “Confidential Information” in a manner that does not violate Company policies or knowingly cause harm to the Company. Accordingly, during employment and for so long thereafter as the information remains qualified as “Confidential Information,” Executive agrees to maintain the confidentiality of “Confidential Information” and not to engage in any unauthorized use or disclosure of such information.

For purposes of this Agreement, “Confidential Information” refers to an item of information, or a compilation of information, in any form (tangible or intangible), related to the Company’s business that (i) the Company has not intentionally made public or authorized public disclosure of, and (ii) is not generally known to the public or to other persons who might obtain value or competitive advantage from its disclosure or use, through proper means. Confidential Information will not lose its protected status under this Agreement if it becomes known to the public or to other persons through improper means such as the unauthorized use or disclosure of the information by Executive or another person. Confidential Information includes, but is not limited to: (i) Market Business Strategy (MBS) data, the Company Transformation Change processes, MBS Plans, Business Improvement Process (BIP), Fleet Planning, Public Sector Proformas, Letters of Intent, Route Manager and District Manager Training Programs, internal information regarding acquisition targets, divestiture targets, and mergers, Real Estate Market Area Analysis Mapping and Real Estate Owned and Leased Property Data and Reporting; (ii) Company’s business plans and analysis, customer and prospect lists; compilations of names and other individualized information concerning customers, investors, and business affiliates (such as contact name, service provided, pricing for that customer, type and amount of services used, credit and financial data, and/or other information relating to the Company’s relationship with that customer); pricing strategies and price curves; marketing plans and strategies, research and development data, buying practices, human resource information and personnel files (including salaries of management level personnel), financial data, operational data, methods, techniques, technical data, know-how, innovations, computer programs, un-patented inventions, and trade secrets; and (iii) information about the business affairs of third parties (including, but not limited to, clients and acquisition targets) that such third parties provide to Company in confidence.

Confidential Information will include trade secrets, but an item of Confidential Information need not qualify as a trade secret to be protected by this Agreement. Company’s confidential exchange of information with a third party for business purposes will not remove it from protection under this Agreement. Executive acknowledges that items of Confidential Information are Company’s valuable assets and have economic value, actual or potential, because they are not generally known by the public or others who could use them to their own economic benefit and/or to the competitive disadvantage of the Company, and thus, should be treated as Company’s trade secrets.

(c) Unfair Competition Restrictions. Ancillary to the rights provided to Executive following employment termination, the Company’s provision of Confidential Information, specialized training, and/or goodwill support to Executive, and Executive’s agreements regarding the use of same, and in order to protect the value of any restricted stock, stock options, or other stock-related compensation, training, goodwill support and/or the Confidential Information

described above, the Company and Executive agree to the following provisions against unfair competition. Executive agrees that for a period of two (2) years following the termination of employment for any reason ("Restricted Term"), Executive will not, directly or indirectly, for Executive or for others, anywhere in the United States (including all parishes in Louisiana, and Puerto Rico), Canada, the United Kingdom, or the People's Republic of China (the "Restricted Area") do the following, unless expressly authorized to do so in writing by the Chief Executive Officer of the Company:

Engage in, or assist any person, entity, or business engaged in, the selling or providing of products or services that would displace the products or services that (i) the Company is currently in the business of providing and was in the business of providing, or was planning to be in the business of providing, at the time Executive was employed with the Company, and (ii) that Executive had involvement in or received Confidential Information about in the course of employment; the foregoing is expressly understood to include, without limitation, the business of the collection, transfer, recycling and resource recovery, or disposal of solid waste, hazardous or other waste, including the operation of waste-to-energy facilities.

During the Restricted Term, Executive cannot engage in any of the enumerated prohibited activities in the Restricted Area by means of telephone, telecommunications, satellite communications, correspondence, or other contact from outside the Restricted Area. Executive further understands that the foregoing restrictions may limit his ability to engage in certain businesses during the Restricted Term, but acknowledges that these restrictions are necessary to protect the Confidential Information the Company has provided to Executive.

A failure to comply with the foregoing restrictions will create a presumption that Executive is engaging in unfair competition. Executive agrees that this Section defining unfair competition with the Company does not prevent Executive from using and offering the skills that Executive possessed prior to receiving access to Confidential Information, confidential training, and knowledge from the Company. This Agreement creates an advance approval process, and nothing herein is intended, or will be construed as, a general restriction against the pursuit of lawful employment in violation of any controlling state or federal laws. Executive shall be permitted to engage in activities that would otherwise be prohibited by this covenant if such activities are determined in the sole discretion of the Chief Executive Officer of the Company in writing to be of no material threat to the legitimate business interests of the Company.

(d) Non-Solicitation of Customers. For the Restricted Term, Executive will not, in person or through the direction or control of others, call on, service, or solicit competing business from a Covered Customer, or induce or encourage any such Covered Customer or other source of ongoing business to stop doing business with Company. A "Covered Customer" is any Company customer (person or entity) for which Executive had business-related contact or dealings with, or received Confidential Information about, in the two (2) year period preceding the termination of Executive's employment with the Company for any reason.

(e) Non-Solicitation of Employees. During Executive's employment, and for the Restricted Term, Executive will not, in person or through the direction or control of others, call on, solicit, encourage, or induce any other employee or officer of the Company or its affiliates whom Executive had contact with, knowledge of, or association within the course of employment with the Company to terminate his or her employment, and will not assist any other person or entity in such a solicitation.

(f) Non-Disparagement. During Executive's employment, and for the Restricted Term, Executive covenants and agrees that Executive shall not engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or good will of the Company, its management, or of management of corporations affiliated with the Company.

(g) Protected Communications. Nothing in this Agreement (particularly nothing in Paragraphs 10(b) and (f) regarding non-disclosure and non-disparagement) is intended or to be construed to prohibit or interfere with any and all rights Executive may have to report a violation of state or federal law to appropriate federal or state law enforcement officials, or to cooperate with a duly authorized government investigation. In addition, nothing herein prohibits Executive from engaging in a disclosure of information that is required by law (such as by court order or subpoena). Provided, however, that if Executive believes that the disclosure of Confidential Information is required by a subpoena, court order, or similar legal mandate, then Executive will provide the Company reasonable notice and opportunity to protect any legitimate business interests it may have in maintaining Confidential Information as confidential (through protective order or other means) before engaging in such a disclosure.

11. Enforcement of Protective Covenants.

(a) Termination of Employment and Forfeiture of Compensation. Executive agrees that any breach by Executive of any of the Protective Covenants set forth in Section 10 during Executive's employment with the Company shall be grounds for immediate employment termination of Executive for Cause pursuant to Section 5(c)(i), which shall be in addition to and not exclusive of any and all other rights and remedies the Company may have against Executive.

In the event that Executive violates one of the Protective Covenants, (i) the Company shall have the right to immediately cease making any payments that it may otherwise owe to Executive, if any, (ii) Executive will forfeit any remaining rights to payments or continuing benefits provided by this Agreement, if there are any, and (iii) upon the Company's demand, Executive will refund to the Company any amounts, plus interest, previously paid by Company to Executive pursuant to Subsections 6(e)(iii), 6(e)(iv), 6(e)(v), 7(a)(i) or 7(a)(ii), less one thousand dollars (\$1,000) which Executive shall be entitled to retain as fully sufficient consideration to support and maintain in effect any contractual obligations that Executive has to the Company prior to the refund, including the Release as defined herein.

(b) Right to Injunction. Executive acknowledges that a breach of a Protective Covenant set forth in Section 10 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages will be inadequate. Therefore, in the

event of any breach or anticipatory breach of a Protective Covenant by Executive, Executive and the Company agree that the Company shall be entitled to seek the following particular forms of relief, in addition to remedies otherwise available to it at law or equity: (i) injunctions, both preliminary and permanent, enjoining or restraining such breach or anticipatory breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (ii) recovery of all reasonable sums expended and costs, including reasonable attorney's fees, incurred by the Company to pursue the remedies provided for in this Section of the Agreement to enforce the Protective Covenants.

(c) Reformation of Covenants. The Protective Covenants set forth in Section 10 constitute a series of separate but ancillary covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the Protective Covenants set forth in Section 10 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to provide for a restriction with the maximum time, geographic, or occupational limitations permitted by such laws to protect the Company's business interests. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

(d) Survival. Executive and the Company further agree that the protective Covenants set forth in Section 10 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the Protective Covenants. The Protective Covenants will survive the termination of Executive's employment with Company, regardless of the cause of the termination. If Executive violates one of the Protective Covenants for which there is a specific time limitation, the time period for that restriction will be extended by one day for each day Executive violates it, up to a maximum extension equal to the length of time prescribed for the restriction, so as to give Company the full benefit of the bargained-for length of forbearance. If Executive becomes employed with an affiliate of the Company without signing a new agreement, the affiliate will step into Company's position under this Agreement, and will be entitled to the same protections and enforcement rights as the Company.

12. Indemnification.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Delaware law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. This provision includes the obligation and undertaking of the Executive to reimburse the Company for any fees advanced by the Company on behalf of the Executive should it later be determined that Executive was not entitled to have such fees advanced by the Company under Delaware law. The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Period in the same amount and to the same extent as the Company covers its other officers and directors.

13. Arbitration.

The parties agree that any dispute relating to this Agreement, or to the breach of this Agreement, arising between Executive and the Company shall be settled by arbitration in accordance with the Federal Arbitration Act and the commercial arbitration rules of the American Arbitration Association ("AAA"), or any other mutually agreed upon arbitration service; provided, however, that temporary and preliminary injunctive relief to enforce the covenants contained in Section 10 of this Agreement, and related expedited discovery, may be pursued in a court of law to provide temporary injunctive relief pending a final determination of all issues of final relief through arbitration. The arbitration proceeding, including the rendering of an award, shall take place in Houston, Texas, and shall be administered by the AAA (or any other mutually agreed upon arbitration service). The arbitrator shall be jointly selected by the Company and Executive within thirty (30) days of the notice of dispute, or if the parties cannot agree, in accordance with the commercial arbitration rules of the AAA (or any other mutually agreed upon arbitration service). All fees and expenses associated with the arbitration shall be borne equally by Executive and the Company during the arbitration, pending final decision by the arbitrator as to who should bear fees, unless otherwise ordered by the arbitrator. The arbitrator shall not be authorized to create a cause of action or remedy not recognized by applicable state or federal law. The arbitrator shall be authorized to award final injunctive relief. The award of the arbitrator shall be final and binding upon the parties without appeal or review, except as permitted by the arbitration laws of the State of Texas. The award, inclusive of any and all injunctive relief provided for therein, shall be enforceable through a court of law upon motion of either party.

14. Requirement of Timely Payments.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

15. Withholding of Taxes.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

16. Source of Payments.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

17. Assignment.

This Agreement shall inure to the benefit of the Company, its subsidiaries, affiliates, successors, and assigns. Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of Executive, and Executive's heirs, representatives, and successors. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's estate).

18. Entire Agreement; Amendment.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company; provided, however, that if all or any material part of the Protective Covenants provided for in this Agreement are deemed void or unenforceable, then any prior agreement between the parties covering the same or substantially similar restrictions on Executive (such as, but not limited to the Company's prior Employment Agreement(s) or Loyalty And Confidentiality Agreement with Executive) shall resume effect to the extent necessary to maintain protection of the Company's legitimate protectable interests covered by the Protective Covenants. This Agreement may not be amended except by a written agreement signed by both parties. No material term or obligation of a party may be waived except through written agreement by the party with the authority to enforce such right or obligation.

19. Governing Law and Venue.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions. The parties agree that any legal action arising from this Agreement that is not required to be resolved through arbitration pursuant to Section 13 must be pursued in a court of competent jurisdiction that is located in Houston, Texas.

20. Notices.

Any notice, consent, request, or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company:	Waste Management, Inc. 1001 Fannin, Suite 4000 Houston, Texas 77002 Attention: General Counsel
To Executive:	At the address for Executive set forth below.

21. Miscellaneous.

(a) Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(b) Severability. Subject to Section 11 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

(c) Headings. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.

(d) Rules of Construction. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.

(e) Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

22. Potential Limitation on Severance Benefits.

(a) Maximum Severance Amount. Notwithstanding any provision in this Agreement to the contrary, in the event of a qualifying termination (or resignation) under Section 6(e) or Section 7 of this Agreement it is determined by the Company that the Severance Benefits (as defined in Section 22(b) below) would exceed 2.99 times the sum of the Executive's then current base salary and target bonus (the "Maximum Severance Amount"), then the aggregate present value of the Severance Benefits provided to the Executive shall be reduced by the Company to the Reduced Amount. The "Reduced Amount" shall be an amount, expressed in present value, that maximizes the aggregate present value of the Severance Benefits without exceeding the Maximum Severance Amount.

(b) Severance Benefits. For purposes of determining Severance Benefits under Section 22(a) above, Severance Benefits means the present value of payments or distributions by the Company, its subsidiaries or affiliated entities to or for the benefit of the Executive (whether paid or provided pursuant to the terms of this Agreement or otherwise), and

(A) including: (i) cash amounts payable by the Company in the event of termination of Executive's employment; and (ii) the present value of benefits or perquisites provided for periods after termination of employment (but excluding benefits or perquisites provided to employees generally); and

(B) excluding: (i) payments of salary, bonus or performance award amounts that had accrued at the time of termination; (ii) payments based on accrued qualified and non-qualified deferred compensation plans, including retirement and savings benefits; (iii) any benefits or perquisites provided under plans or programs applicable to employees generally; (iv) amounts paid as part of any agreement intended to "make-whole" any

forfeiture of benefits from a prior employer; (v) amounts paid for services following termination of employment for a reasonable consulting agreement for a period not to exceed one year; (vi) amounts paid for post-termination covenants (such as a covenant not to compete); (vii) the value of accelerated vesting or payment of any outstanding equity-based award; and (viii) any payment that the Board or any committee thereof determines in good faith to be a reasonable settlement of any claim made against the Company.

(c) Possible 280G Reduction. Following application of Section 22(a), in the event that the payment of the remaining Severance Benefits to Executive plus any other payments to Executive which would be subject to Internal Revenue Code Section 280G (including any reduced Severance Benefits) (“280G Severance Benefits”) would be subject (in whole or part), to any excise tax imposed under Internal Revenue Code Section 4999 (the “Excise Tax”), then the cash portion of the 280G Severance Benefits shall first be further reduced, and the non-cash 280G Severance Benefits shall thereafter be further reduced, to the extent necessary so that no portion of the 280G Severance Benefits is subject to the Excise Tax, but only if (i) the amount of the 280G Severance Benefits to be received by Executive, as so reduced by this Section 22(c) and after subtracting the amount of federal, state and local income taxes on such reduced 280G Severance Benefits (after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced 280G Severance Benefits) is greater than or equal to (ii) the amount of the 280G Severance Benefits to be received by Executive without such reduction by this Section 22(c) after subtracting the amount of federal, state and local income taxes on such 280G Severance Benefits and the amount of the Excise Tax to which Executive would be subject in respect of such unreduced 280G Severance Benefits (after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced 280G Severance Benefits).

(d) Calculation of 280G Severance Benefits. For purposes of determining the 280G Severance Benefits, (i) no portion of the 280G Severance Benefits, the receipt or enjoyment of which Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Internal Revenue Code Section 280G(b), shall be taken into account, (ii) no portion of the 280G Severance Benefits shall be taken into account which, in the opinion of tax counsel (“Tax Counsel”) who is reasonably acceptable to Executive and selected by the accounting firm (the “Auditor”) which was, immediately prior to the Change in Control, the Company’s independent auditor, does not constitute a “parachute payment” within the meaning of Internal Revenue Code Section 280G(b)(2) (including by reason of Internal Revenue Code Section 280G(b)(4)(A)); (iii) no portion of the 280G Severance Benefits shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of Internal Revenue Code Section 280G(b)(4)(B), in excess of the “base amount” (as defined in Internal Revenue Code Section 280G(b)(3)) allocable to such reasonable compensation, and (iv) the value of any non-cash benefit or any deferred payment or benefit included in the 280G Severance Benefits shall be determined by the Auditor in accordance with the principles of Internal Revenue Code Sections 280G(d)(3) and (4).

(e) Determination of Present Value. For purposes of this Section 22, the present value of Severance Benefits and 280G Severance Benefits 280G shall be determined in accordance with Internal Revenue Code Section 280G(d)(4).

23. Compliance with Internal Revenue Code Section 409A.

(a) Compliance. It is the intention of the Company and Executive that this Employment Agreement not result in unfavorable tax consequences to Executive under Internal Revenue Code Section 409A. This Section 23 does not create an obligation on the part of Company to modify the Employment Agreement in the future and does not guarantee that the amounts or benefits owed under the Employment Agreement will not be subject to interest and penalties under Internal Revenue Code Section 409A.

(b) Payment Timing. The payments of severance under Sections 6(e)(iii) and (iv) and Sections 7(a)(i) and (ii) above (“Separation Payments”) are designated as separate payments for purposes of the short-term deferral rules under Treasury Regulation Section 1.409A-1(b)(4)(i)(F), and, with respect to such Separation Payments, the exemption for involuntary terminations under separation pay plans under Treasury Regulation Section 1.409A-1(b)(9)(iii). As a result, (A) Separation Payments that are by their terms scheduled to be made on or before March 15th of the calendar year following the applicable year of termination, (B) any additional Separation Payments that are made on or before December 31st of the second calendar year following the year of Executive’s termination and do not exceed the lesser of two times Base Salary or two times the limit under Internal Revenue Code Section 401(a)(17) then in effect, and (C) any Separation Payments under Section 7(a) made on account of a 409A Change in Control within the meaning of Internal Revenue Code Section 409A are exempt from the requirements of Internal Revenue Code Section 409A. If Executive is designated as a “specified employee” within the meaning of Internal Revenue Code Section 409A, then to the extent the Disability Payments and Separation Payments to be made during the first six month period following Executive’s termination of employment exceed such exempt amounts, the payments shall be withheld and the amount of the payments withheld will be paid in a lump sum, with interest (at the Company’s then applicable overnight rate), on the date that is six (6) months and one (1) day after Executive’s termination. Continued medical benefits under Sections 6(e)(v) and 7(a)(i) above are intended to satisfy the exemption for medical expense reimbursements under Treasury Regulation Section 1.409A-1(b)(9)(v)(B).

MARK E. SCHWARTZ
 (“Executive”)

 /s/ Mark E. Schwartz
Mark E. Schwartz

WASTE MANAGEMENT, INC.
 (The “Company”)

By: /s/ David P. Steiner
David P. Steiner
President and Chief Executive Officer

Mine Safety Disclosures

This exhibit contains certain specified disclosures regarding mine safety required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K. Certain of our subsidiaries have permits for surface mining operations that are incidental to excavation work for landfill development.

During the quarter ended June 30, 2012, we did not receive any of the following: (a) a citation from the U.S. Mine Safety and Health Administration (“MSHA”) for a violation of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Federal Mine Safety and Health Act of 1977 (the “Mine Safety Act”); (b) an order issued under section 104(b) of the Mine Safety Act; (c) a citation or order for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Safety Act; (d) a flagrant violation under section 110(b)(2) of the Mine Safety Act; (e) an imminent danger order under section 107(a) of the Mine Safety Act; or (f) a proposed assessment from the MSHA.

In addition, during the quarter ended June 30, 2012, we had no mining-related fatalities, we had no pending legal actions before the Federal Mine Safety and Health Review Commission involving a coal or other mine, and we did not receive any written notice from the MSHA involving a pattern of violations, or the potential to have such a pattern, of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Safety Act.