

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, 2014

**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 22, 2014 was 466,401,578 (excluding treasury shares of 163,880,883).

PART I.

Item 1. *Financial Statements.*

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

| | June 30, 2014 (Unaudited) | December 31, 2013 |
|---|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 137 | \$ 58 |
| Accounts receivable, net of allowance for doubtful accounts of \$32 and \$33, respectively | 1,710 | 1,699 |
| Other receivables | 87 | 111 |
| Investment in unconsolidated entity | — | 177 |
| Parts and supplies | 166 | 178 |
| Deferred income taxes | 106 | 113 |
| Other assets | 149 | 163 |
| Total current assets | 2,355 | 2,499 |
| Property and equipment, net of accumulated depreciation and amortization of \$16,998 and \$16,723, respectively | 12,031 | 12,344 |
| Goodwill | 6,094 | 6,070 |
| Other intangible assets, net | 493 | 529 |
| Investments in unconsolidated entities | 419 | 414 |
| Other assets | 787 | 747 |
| Total assets | <u>\$ 22,179</u> | <u>\$ 22,603</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 692 | \$ 744 |
| Accrued liabilities | 1,031 | 1,069 |
| Deferred revenues | 471 | 475 |
| Current portion of long-term debt | 786 | 726 |
| Total current liabilities | 2,980 | 3,014 |
| Long-term debt, less current portion | 9,011 | 9,500 |
| Deferred income taxes | 1,796 | 1,842 |
| Landfill and environmental remediation liabilities | 1,540 | 1,518 |
| Other liabilities | 705 | 727 |
| Total liabilities | 16,032 | 16,601 |
| 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 | 4,624 | 4,596 |
| Retained earnings | 6,376 | 6,289 |
| Accumulated other comprehensive income | 135 | 154 |
| Treasury stock at cost, 164,396,943 and 165,961,646 shares, respectively | (5,288) | (5,338) |
| Total Waste Management, Inc. stockholders' equity | 5,853 | 5,707 |
| Noncontrolling interests | 294 | 295 |
| Total equity | 6,147 | 6,002 |
| Total liabilities and equity | <u>\$ 22,179</u> | <u>\$ 22,603</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 | | Six Months Ended | |
|---|--------------------|-----------------|------------------|----------------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Operating revenues | \$ 3,561 | \$ 3,526 | \$ 6,957 | \$ 6,862 |
| Costs and expenses: | | | | |
| Operating | 2,301 | 2,311 | 4,533 | 4,520 |
| Selling, general and administrative | 353 | 353 | 728 | 743 |
| Depreciation and amortization | 339 | 339 | 656 | 662 |
| Restructuring | 1 | 2 | 2 | 10 |
| (Income) expense from divestitures, asset impairments and unusual items | 35 | 11 | 37 | 15 |
| | <u>3,029</u> | <u>3,016</u> | <u>5,956</u> | <u>5,950</u> |
| Income from operations | <u>532</u> | <u>510</u> | <u>1,001</u> | <u>912</u> |
| Other income (expense): | | | | |
| Interest expense, net | (115) | (121) | (236) | (242) |
| Equity in net losses of unconsolidated entities | (13) | (8) | (22) | (16) |
| Other, net | (2) | 2 | (5) | (9) |
| | <u>(130)</u> | <u>(127)</u> | <u>(263)</u> | <u>(267)</u> |
| Income before income taxes | 402 | 383 | 738 | 645 |
| Provision for income taxes | 180 | 127 | 279 | 213 |
| Consolidated net income | 222 | 256 | 459 | 432 |
| Less: Net income attributable to noncontrolling interests | 12 | 12 | 21 | 20 |
| Net income attributable to Waste Management, Inc. | <u>\$ 210</u> | <u>\$ 244</u> | <u>\$ 438</u> | <u>\$ 412</u> |
| Basic earnings per common share | <u>\$ 0.45</u> | <u>\$ 0.52</u> | <u>\$ 0.94</u> | <u>\$ 0.88</u> |
| Diluted earnings per common share | <u>\$ 0.45</u> | <u>\$ 0.52</u> | <u>\$ 0.94</u> | <u>\$ 0.88</u> |
| Cash dividends declared per common share | <u>\$ 0.375</u> | <u>\$ 0.365</u> | <u>\$ 0.75</u> | <u>\$ 0.73</u> |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Consolidated net income | \$ 222 | \$ 256 | \$ 459 | \$ 432 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Derivative instruments, net | 4 | 12 | (2) | 10 |
| Available-for-sale securities, net | 2 | (1) | 2 | — |
| Foreign currency translation adjustments | 40 | (37) | (19) | (69) |
| Post-retirement benefit obligation, net | — | — | — | — |
| Other comprehensive income (loss), net of taxes | <u>46</u> | <u>(26)</u> | <u>(19)</u> | <u>(59)</u> |
| Comprehensive income | 268 | 230 | 440 | 373 |
| Less: Comprehensive income attributable to noncontrolling interests | 12 | 12 | 21 | 20 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$ 256</u> | <u>\$ 218</u> | <u>\$ 419</u> | <u>\$ 353</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, | |
|--|---------------------------|---------------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Consolidated net income | \$ 459 | \$ 432 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 656 | 662 |
| Deferred income tax benefit | (48) | (29) |
| Interest accretion on landfill liabilities | 43 | 43 |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | 2 | (7) |
| Provision for bad debts | 19 | 25 |
| Equity-based compensation expense | 29 | 34 |
| Excess tax benefits associated with equity-based transactions | (1) | (7) |
| Net gain from disposal of assets | (25) | (10) |
| Effect of (income) expense from divestitures, asset impairments and unusual items and other | 37 | 26 |
| Equity in net losses of unconsolidated entities, net of dividends | 22 | 16 |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Receivables | (8) | (4) |
| Other current assets | 11 | 3 |
| Other assets | 13 | (5) |
| Accounts payable and accrued liabilities | (16) | (32) |
| Deferred revenues and other liabilities | (54) | (25) |
| Net cash provided by operating activities | <u>1,139</u> | <u>1,122</u> |
| Cash flows from investing activities: | | |
| Acquisitions of businesses, net of cash acquired | (26) | (210) |
| Capital expenditures | (474) | (501) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 266 | 74 |
| Net receipts from (deposits to) restricted trust and escrow accounts | 11 | (2) |
| Investments in unconsolidated entities | (11) | (24) |
| Other | (60) | (30) |
| Net cash used in investing activities | <u>(294)</u> | <u>(693)</u> |
| Cash flows from financing activities: | | |
| New borrowings | 1,500 | 461 |
| Debt repayments | (1,925) | (658) |
| Cash dividends | (349) | (341) |
| Exercise of common stock options | 31 | 98 |
| Excess tax benefits associated with equity-based transactions | 1 | 7 |
| Distributions paid to noncontrolling interests | (22) | (32) |
| Other | (2) | — |
| Net cash used in financing activities | <u>(766)</u> | <u>(465)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | (4) |
| Increase (decrease) in cash and cash equivalents | 79 | (40) |
| Cash and cash equivalents at beginning of period | 58 | 194 |
| Cash and cash equivalents at end of period | <u>\$ 137</u> | <u>\$ 154</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, 2013 | \$6,002 | 630,282 | \$ 6 | \$ 4,596 | \$ 6,289 | \$ 154 | (165,962) | \$ (5,338) | \$ 295 |
| Consolidated net income | 459 | — | — | — | 438 | — | — | — | 21 |
| Other comprehensive income (loss), net of taxes | (19) | — | — | — | — | (19) | — | — | — |
| Cash dividends | (349) | — | — | — | (349) | — | — | — | — |
| Equity-based compensation transactions, including dividend equivalents, net of taxes | 76 | — | — | 28 | (2) | — | 1,562 | 50 | — |
| Distributions paid to noncontrolling interests | (22) | — | — | — | — | — | — | — | (22) |
| Other | — | — | — | — | — | — | 3 | — | — |
| Balance, June 30, 2014 | <u>\$6,147</u> | <u>630,282</u> | <u>\$ 6</u> | <u>\$ 4,624</u> | <u>\$ 6,376</u> | <u>\$ 135</u> | <u>(164,397)</u> | <u>\$ (5,288)</u> | <u>\$ 294</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 beneficiaries 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 are North America's leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our "Solid Waste" business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, recycling and resource recovery, and disposal services. Through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business 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 Solid Waste or Wheelabrator businesses, which are presented in this report as "Other." Additional information related to our segments can be found in Note 8.

The Condensed Consolidated Financial Statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 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, comprehensive income, cash flows, and changes in equity 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, 2013.

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 precision from available data or simply cannot be calculated. In some cases, these estimates are 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.

Reclassifications

When necessary, reclassifications have been made to our prior period consolidated financial information in order to conform to the current year presentation.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Landfill and Environmental Remediation Liabilities

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

| | June 30, 2014 | | | December 31, 2013 | | |
|----------------------------------|----------------|---------------------------|----------------|-------------------|---------------------------|----------------|
| | Landfill | Environmental Remediation | Total | Landfill | Environmental Remediation | Total |
| Current (in accrued liabilities) | \$ 92 | \$ 35 | \$ 127 | \$ 95 | \$ 35 | \$ 130 |
| Long-term | 1,352 | 188 | 1,540 | 1,326 | 192 | 1,518 |
| | <u>\$1,444</u> | <u>\$ 223</u> | <u>\$1,667</u> | <u>\$1,421</u> | <u>\$ 227</u> | <u>\$1,648</u> |

The changes to landfill and environmental remediation liabilities are reflected in the table below (in millions):

| | Landfill | Environmental Remediation |
|--|----------------|---------------------------|
| December 31, 2012 | \$ 1,338 | \$ 253 |
| Obligations incurred and capitalized | 59 | — |
| Obligations settled | (71) | (20) |
| Interest accretion | 87 | 4 |
| Revisions in estimates and interest rate assumptions | 6 | (6) |
| Acquisitions, divestitures and other adjustments | 2 | (4) |
| December 31, 2013 | 1,421 | 227 |
| Obligations incurred and capitalized | 26 | — |
| Obligations settled | (23) | (9) |
| Interest accretion | 43 | 3 |
| Revisions in estimates and interest rate assumptions | (6) | 2 |
| Acquisitions, divestitures and other adjustments | (17) | — |
| June 30, 2014 | <u>\$1,444</u> | <u>\$ 223</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.

WASTE MANAGEMENT, INC.

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, 2014:

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| U.S. revolving credit facility, maturing July 2018 (weighted average interest rate of 1.2% at June 30, 2014 and December 31, 2013) | \$ 105 | \$ 420 |
| Letter of credit facilities, maturing through December 2016 | — | — |
| Canadian credit facility and term loan, maturing November 2017 (weighted average effective interest rate of 2.6% at June 30, 2014 and 2.7% at December 31, 2013) | 351 | 414 |
| Senior notes maturing through 2039, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 5.7% at June 30, 2014 and December 31, 2013) | 6,279 | 6,287 |
| Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 0.04% to 5.7% (weighted average interest rate of 2.2% at June 30, 2014 and 2.3% at December 31, 2013) | 2,649 | 2,664 |
| Capital leases and other, maturing through 2055, interest rates up to 12% | 413 | 441 |
| | <u>9,797</u> | <u>10,226</u> |
| Current portion of long-term debt | 786 | 726 |
| | <u>\$9,011</u> | <u>\$ 9,500</u> |

Debt Classification

As of June 30, 2014, we had (i) \$517 million of debt maturing within the next 12 months, including \$350 million of 6.375% senior notes that mature in March 2015 and \$102 million of tax-exempt bonds; (ii) \$105 million of short-term borrowings outstanding under the U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and (iii) \$905 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance portions of our current obligations on a long-term basis as of June 30, 2014, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$741 million of this debt as long-term and the remaining \$786 million as current obligations. The \$741 million classified as long-term is less than our unused and available capacity under our \$2.25 billion revolving credit facility of \$1.3 billion discussed below due to expected decreases in such available capacity within the next 12 months.

Revolving Credit and Letter of Credit Facilities

As of June 30, 2014, we had an aggregate committed capacity of \$2.65 billion for letters of credit under various U.S. credit facilities. Our \$2.25 billion revolving credit facility expires in July 2018 and is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms ending through December 2016. As of June 30, 2014, we had an aggregate of \$1.3 billion of letters of credit outstanding under various credit facilities. Approximately \$874 million of these letters of credit have been issued under our \$2.25 billion revolving credit facility. As of June 30, 2014, we had outstanding borrowings under our \$2.25 billion revolving credit facility of \$105 million, leaving \$1.3 billion of unused and available capacity.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We also have a Canadian credit agreement that matures in November 2017 and provides for C\$150 million of revolving credit capacity. We have the ability to issue up to C\$50 million of letters of credit under the Canadian revolving credit facility, which if utilized, reduces the amount of credit capacity available for borrowings. As of June 30, 2014, we had no letters of credit or borrowings outstanding under the credit facility.

Debt Borrowings and Repayments

\$2.25 Billion Revolving Credit Facility — During the first half of 2014, we made net repayments of \$315 million under our \$2.25 billion revolving credit facility with available cash.

Canadian Credit Facility and Term Loan — We repaid C\$65 million, or \$60 million, of net advances under our Canadian credit facility and term loan during the six months ended June 30, 2014 with available cash.

Senior Notes — In March 2014, we repaid \$350 million of 5.0% senior notes that matured in March 2014 with borrowings under our \$2.25 billion revolving credit facility. In May 2014, we issued \$350 million of 3.5% senior notes due May 15, 2024. The net proceeds from the debt issuance were \$347 million, all of which were used to repay borrowings under our \$2.25 billion revolving credit facility.

Tax-Exempt Bonds — During the six months ended June 30, 2014, we repaid \$15 million of tax-exempt bonds with available cash.

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, 2014</u> | <u>December 31, 2013</u> |
|--|-------------------------------|--------------------------|------------------------------|
| Foreign currency derivatives | Long-term other assets | \$ 1 | \$ 2 |
| Total derivative assets | | <u>\$ 1</u> | <u>\$ 2</u> |
| Electricity commodity derivatives | Current accrued liabilities | \$ 1 | \$ 3 |
| Foreign currency derivatives | Current accrued liabilities | 2 | — |
| Interest rate derivatives | Current accrued liabilities | — | 28 |
| Total derivative liabilities | | <u>\$ 3</u> | <u>\$ 31</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.

Fair Value Hedges*Interest Rate Swaps*

In prior years, we entered into interest rate swaps to maintain a portion of our debt obligations at variable market interest rates. We designated these 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 \$51 million as of June 30, 2014 and \$59 million as of December 31, 2013. These fair value adjustments to long-term debt are being amortized as a reduction to interest expense using the effective interest method over the remaining term of the related senior notes, which extend through 2028. We recognized benefits to interest expense associated with the amortization of our terminated interest rate swaps of \$3 million and \$5 million for the three-month periods ended June 30, 2014 and 2013, respectively, and \$8 million and \$10 million for the six-month periods ended June 30, 2014 and 2013, respectively.

Cash Flow Hedges*Forward-Starting Interest Rate Swaps*

During the first quarter of 2014, forward-starting interest rate swaps with a notional value of \$175 million matured and we paid cash of \$36 million to settle the associated liabilities. These swaps were designated as cash flow hedges and had been executed in prior years to hedge the risk of changes in semi-annual interest payments due to fluctuations in the forward ten-year LIBOR swap rate for an anticipated fixed-rate debt issuance that occurred in May 2014. Accordingly, the effective portion of the loss associated with the matured forward-starting swaps has been deferred as a component of “Accumulated other comprehensive income” and is being amortized to interest expense over the ten-year term of the related senior notes. The ineffectiveness realized during the second quarter of 2014 was not material.

At June 30, 2014 and December 31, 2013, our “Accumulated other comprehensive income” included \$53 million and \$34 million, respectively, of after-tax deferred losses related to all terminated swaps. These losses are being amortized as an increase to interest expense using the effective interest method over the ten-year term of the related senior notes, which extend through 2024. As of June 30, 2014, \$11 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months for these previously terminated swaps.

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 WM Holdings and its Canadian subsidiaries. As of June 30, 2014, we had foreign exchange cross currency swaps outstanding for all of the anticipated cash flows associated with intercompany loans from WM Holdings to the wholly-owned Canadian subsidiaries. The hedged cash flows as of June 30, 2014 include C\$370 million of total notional value. The scheduled principal payments of the loan and the related swaps are as follows: C\$70 million due on October 31, 2016, C\$150 million due on October 31, 2017 and C\$150 million due on October 31, 2018. We designated these cross currency swaps as cash flow hedges. Gains or losses resulting from the remeasurement of the underlying non-functional currency intercompany loan are recognized in current earnings in the same financial statement line item as offsetting gains or losses on the related cross currency swaps.

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 1.73 million megawatt hours, or approximately 56%, of Wheelabrator’s full year 2013 merchant electricity sales and the swaps executed through June 30, 2014 are expected to hedge approximately 482,000 megawatt hours, or approximately 16%, of Wheelabrator’s full year 2014 merchant electricity sales. For each of the three- and six-month periods ended June 30, 2014, we hedged 17% of Wheelabrator’s merchant electricity sales. For the three- and six-month periods ended June 30, 2013, we hedged 56% and 54%, respectively, of Wheelabrator’s merchant electricity sales.

There was no significant ineffectiveness associated with our cash flow hedges during the three and six months ended June 30, 2014 or 2013. Refer to Note 11 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

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, 2014 and December 31, 2013, we did not have any interest rate derivatives outstanding that contained these credit-risk-related features.

5. Income Taxes

Our effective income tax rate for the three and six months ended June 30, 2014 was 44.7% and 37.8%, respectively, compared with 33.2% and 33.0%, for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it 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, 2014 was primarily due to the divestiture of our Puerto Rico operations and certain other collection and landfill assets. We recognized a \$25 million loss on the divestment as discussed in Notes 9 and 10. No tax benefit was recorded in connection with the loss. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment. Also contributing to the difference for the three and six months ended June 30, 2014 was the unfavorable impact of state and local income taxes offset, in part, by the favorable impact of federal tax credits and the utilization of capital loss carryovers. The six month period also benefited from the revaluation of our deferred taxes and utilization of state net operating losses resulting from a change in state law. 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, 2013 was primarily due to the favorable impact of federal tax credits and tax audit settlements offset, in part, by the unfavorable impact of state and local income taxes and tax implications related to impairments.

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.

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results of operations and other reductions in the value of our investment in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. We recognized \$2 million of net losses resulting from our share of the entity's operating losses during both the three and six months ended June 30, 2014, and \$2 million and \$3 million during the three and six months ended June 30, 2013, respectively. Our tax provision was reduced by \$5 million and \$8 million for the three and six months ended June 30, 2014, respectively, and by \$6 million and \$9 million for the three and six months ended June 30, 2013, respectively, primarily as a result of tax credits realized from this investment. See Note 13 for additional information related to this investment.

Investment in Low-Income Housing Properties — 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, recognizing our share of the entity's results of operations and other 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, 2014, 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 \$17 million (including \$11 million of tax credits), respectively. During the three and six months ended June 30, 2013, 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 \$10 million (including \$7 million of tax credits) and \$17 million (including \$11 million of tax credits), respectively. See Note 13 for additional information related to this investment.

Bonus Depreciation — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

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, | |
|---|--------------------------------|-------|------------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| Number of common shares outstanding at end of period | 465.9 | 468.1 | 465.9 | 468.1 |
| Effect of using weighted average common shares outstanding | — | (0.2) | (0.3) | (1.3) |
| Weighted average basic common shares outstanding | 465.9 | 467.9 | 465.6 | 466.8 |
| Dilutive effect of equity-based compensation awards and other contingently issuable shares | 2.1 | 1.5 | 1.9 | 1.3 |
| Weighted average diluted common shares outstanding | 468.0 | 469.4 | 467.5 | 468.1 |
| Potentially issuable shares | 13.8 | 13.6 | 13.8 | 13.6 |
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 0.8 | 1.2 | 2.8 | 3.2 |

7. Commitments and Contingencies

Financial Instruments — We have obtained letters of credit, surety 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 \$2.25 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 3. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) wholly-owned insurance companies, the sole business of which is to issue surety bonds and/or insurance policies on our behalf.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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. 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.

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 connection with both consolidated and unconsolidated entities. Guarantee agreements outstanding as of June 30, 2014 include (i) guarantees of unconsolidated entities' financial obligations maturing through 2020 for maximum future payments of \$9 million and (ii) agreements guaranteeing certain market value losses for approximately 825 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 or other market conditions 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. We do not currently believe that contingent obligations to provide indemnification or pay additional post-closing consideration in connection with our divestitures or acquisitions will have a material adverse effect on the Company's business, financial condition, 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 \$190 million higher than the \$223 million recorded in the Condensed Consolidated Financial Statements as of June 30, 2014. 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of June 30, 2014, we had been notified by the government that we are a PRP in connection with 75 locations listed on the EPA's Superfund National Priorities List, or NPL. Of the 75 sites at which claims have been made against us, 14 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 evaluate 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 other 61 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 matter is disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of such matter could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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.

Additionally, on April 30, 2014, the United States District Court for the District of Hawaii issued an indictment against Waste Management of Hawaii, Inc. ("WMHI") and two employees of WMHI. The United States Attorney's Office for the District of Hawaii had been investigating water discharges at the Waimanalo Gulch Sanitary Landfill, which WMHI operates for the city and county of Honolulu, in connection with three major rainstorms in December 2010 and January 2011. The indictment alleges violations of the federal Clean Water Act, conspiracy and making false statements to the Hawaii Department of Health and the EPA. We are vigorously defending against this action. Given the early stage of this case and significant issues in dispute, we cannot currently predict an outcome or estimate a range of loss, but we could potentially be subject to sanctions, including requirements to pay monetary penalties.

Litigation — 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 included on our invoices, 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 a purported class action in 2008 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 parties, among other factors. Additionally, we often enter into agreements 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 agreements inherently involves 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 any person 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 execute an undertaking to 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, its Chief Executive Officer and each of its executive vice presidents. The employment agreements between WM and its Chief Executive 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 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 covered 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. Any other circumstance resulting in a decline in Company

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

contributions to a multiemployer defined benefit pension plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

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, and we have recognized charges to “Operating” expense associated with the withdrawal of certain bargaining units from the Central States Pension Plan and other underfunded multiemployer pension plans. 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. The Company believes there are no collective bargaining agreements remaining that require continuing contributions to this plan; however, this point is the subject of pending litigation with the trustees for the Central States Pension Plan.

We are still negotiating and litigating final resolutions of our withdrawal liability for certain previous withdrawals. Except in the case of our withdrawals from the Central States Pension Plan, 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, liquidity, results of operations or cash flows. In addition to charges recognized in prior years, we currently estimate that we could incur up to approximately \$40 million in future charges based on demands from representatives of the Central States Pension Plan. As a result, we do not anticipate that the final resolution of the Central States Pension Plan matter could be material to the Company’s business, financial condition or liquidity; however, such loss could have a material adverse effect on our cash flows and, to a lesser extent, our results of operations, for a particular reporting period. Similarly, we also do not believe that any future withdrawals, individually or in the aggregate, from the multiemployer pension 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 or cash flows for a particular reporting period, depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer pension 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 2013 and 2014 and expect these audits to be completed within the next nine and 21 months, respectively. We participate in the IRS’s Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our annual tax return. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2005, with the exception of affirmative claims in one jurisdiction that date back to 2000. We are not currently under audit in Canada and all tax years prior to 2009 are closed. In July 2011, we acquired Oakleaf Global Holdings (“Oakleaf”), which is subject to potential IRS examinations for the years 2010 and 2011. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf’s pre-acquisition period 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

Our senior management evaluates, oversees and manages the financial performance of our Solid Waste subsidiaries through our 17 geographic Areas. These 17 Areas constitute our operating segments and none of the Areas individually meet the quantitative criteria to be a separate reportable segment. We have evaluated the aggregation criteria and concluded that, based on the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geography with the same services offered across the Areas,

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas' income from operations margins. The economic variations experienced by our Areas is attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area's current or future economic performance. As a result of our consideration of economic and other similarities, we have established the following three reportable segments for our Solid Waste business: Tier 1, which is comprised almost exclusively of Areas in the Southern United States; Tier 2, which is comprised predominately of Areas located in the Midwest and Northeast United States; and Tier 3, which encompasses all remaining Areas, including the Northwest and Mid-Atlantic regions of the United States and Eastern Canada. Our Wheelabrator business, which manages waste-to-energy facilities and independent power production plants, continues to be a separate reportable segment as it meets one of the quantitative disclosure thresholds. The operating segments not evaluated and overseen through the 17 Areas and Wheelabrator are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

Summarized financial information concerning our reportable segments is shown in the following table (in millions):

| | <u>Gross Operating Revenues</u> | <u>Intercompany Operating Revenues</u> | <u>Net Operating Revenues</u> | <u>Income from Operations</u> |
|----------------------------|---|--|---------------------------------------|---------------------------------------|
| Three Months Ended: | | | | |
| June 30, 2014 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 885 | \$ (138) | \$ 747 | \$ 223 |
| Tier 2 | 1,650 | (310) | 1,340 | 335 |
| Tier 3 | 911 | (151) | 760 | 149 |
| Solid Waste | <u>3,446</u> | <u>(599)</u> | <u>2,847</u> | <u>707</u> |
| Wheelabrator | 206 | (25) | 181 | 20 |
| Other | 551 | (18) | 533 | (29) |
| | <u>4,203</u> | <u>(642)</u> | <u>3,561</u> | <u>698</u> |
| Corporate and Other | — | — | — | (166) |
| Total | <u>\$ 4,203</u> | <u>\$ (642)</u> | <u>\$ 3,561</u> | <u>\$ 532</u> |
| June 30, 2013 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 891 | \$ (144) | \$ 747 | \$ 221 |
| Tier 2 | 1,641 | (313) | 1,328 | 325 |
| Tier 3 | 871 | (139) | 732 | 131 |
| Solid Waste | <u>3,403</u> | <u>(596)</u> | <u>2,807</u> | <u>677</u> |
| Wheelabrator | 215 | (27) | 188 | 4 |
| Other | 554 | (23) | 531 | (27) |
| | <u>4,172</u> | <u>(646)</u> | <u>3,526</u> | <u>654</u> |
| Corporate and Other | — | — | — | (144) |
| Total | <u>\$ 4,172</u> | <u>\$ (646)</u> | <u>\$ 3,526</u> | <u>\$ 510</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Gross Operating Revenues | Intercompany Operating Revenues | Net Operating Revenues | Income from Operations |
|--------------------------|--------------------------------|---------------------------------------|------------------------------|------------------------------|
| Six Months Ended: | | | | |
| June 30, 2014 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 1,735 | \$ (267) | \$ 1,468 | \$ 441 |
| Tier 2 | 3,152 | (578) | 2,574 | 619 |
| Tier 3 | 1,758 | (286) | 1,472 | 273 |
| Solid Waste | 6,645 | (1,131) | 5,514 | 1,333 |
| Wheelabrator | 436 | (52) | 384 | 54 |
| Other | 1,098 | (39) | 1,059 | (47) |
| | 8,179 | (1,222) | 6,957 | 1,340 |
| Corporate and Other | — | — | — | (339) |
| Total | <u>\$ 8,179</u> | <u>\$ (1,222)</u> | <u>\$ 6,957</u> | <u>\$ 1,001</u> |
| June 30, 2013 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 1,734 | \$ (277) | \$ 1,457 | \$ 428 |
| Tier 2 | 3,157 | (588) | 2,569 | 623 |
| Tier 3 | 1,697 | (267) | 1,430 | 240 |
| Solid Waste | 6,588 | (1,132) | 5,456 | 1,291 |
| Wheelabrator | 420 | (54) | 366 | 13 |
| Other | 1,088 | (48) | 1,040 | (68) |
| | 8,096 | (1,234) | 6,862 | 1,236 |
| Corporate and Other | — | — | — | (324) |
| Total | <u>\$ 8,096</u> | <u>\$ (1,234)</u> | <u>\$ 6,862</u> | <u>\$ 912</u> |

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, changes in commodity prices and by general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in the summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. 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.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

9. Acquisitions and Divestitures*Acquisitions*

Greenstar, LLC — On January 31, 2013, we paid \$170 million inclusive of certain adjustments to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent, based on changes in certain recyclable commodity indexes, and had an estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers.

Goodwill of \$122 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned predominantly to our Areas and, to a lesser extent, our recycling brokerage services, as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes. There were no material adjustments to the purchase price allocation from the date of acquisition.

RCI Environnement, Inc. — On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec.

Goodwill of \$191 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned to our Eastern Canada Area as it is expected to benefit from the synergies of the combination. A portion of goodwill related to this acquisition is deductible for income tax purposes in accordance with Canadian tax law.

The allocation of the purchase price for the RCI acquisition is final. The following table presents the adjustments since the acquisition date to the allocation of the purchase price for RCI (in millions):

| | RCI | | |
|--|-----------------|-------------|------------------|
| | July 5, 2013 | Adjustments | June 30, 2014 |
| Accounts and other receivables | \$ 32 | \$ — | \$ 32 |
| Property and equipment | 118 | (1) | 117 |
| Goodwill | 177 | 14 | 191 |
| Other intangible assets | 169 | — | 169 |
| Deferred revenues | (4) | — | (4) |
| Landfill and environmental remediation liabilities | (1) | — | (1) |
| Deferred income taxes, net | — | (14) | (14) |
| Long-term debt, less current portion | (4) | 1 | (3) |
| Total purchase price | <u>\$ 487</u> | <u>\$ —</u> | <u>\$ 487</u> |

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The following table presents the final allocation of the purchase price for RCI to other intangible assets (amounts in millions, except for amortization periods):

| | RCI | |
|---|---------------|--|
| | Amount | Weighted Average Amortization Periods (in Years) |
| Customer relationships | \$ 162 | 15.0 |
| Trade name | 7 | 5.0 |
| Total other intangible assets subject to amortization | <u>\$ 169</u> | <u>14.6</u> |

The following pro forma consolidated results of operations have been prepared as if the acquisitions of Greenstar and RCI occurred at January 1, 2013 (in millions, except per share amounts):

| | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2013 |
|---|-------------------------------------|-----------------------------------|
| Operating revenues | \$ 3,572 | \$ 6,963 |
| Net income attributable to Waste Management, Inc. | 245 | 413 |
| Basic earnings per common share | 0.52 | 0.88 |
| Diluted earnings per common share | 0.52 | 0.88 |

Divestitures

In the second quarter of 2014, we sold our Puerto Rico operations and certain other collection and landfill assets which were included in Tier 3 and Tier 1, respectively, of our Solid Waste business. We received proceeds from the sale of \$80 million, consisting of \$65 million of cash and \$15 million of preferred stock. The loss recognized related to the sale was \$25 million and is recorded in “(Income) expense from divestitures, asset impairments and unusual items” in our Condensed Consolidated Statement of Operations.

10. Asset Impairments and Unusual Items

(Income) expense from divestitures, asset impairments and unusual items

During the first half of 2014, we recognized net charges of \$37 million, primarily related to a \$25 million loss on the divestiture of our Puerto Rico operations and certain other collection and landfill assets as discussed further in Note 9 and a \$12 million impairment charge due to the decision to close a waste processing facility.

During the first half of 2013, we recognized net charges of \$15 million, primarily related to a \$14 million impairment charge at a waste-to-energy facility as a result of projected operating losses. We wrote down the carrying value of the facility’s property, plant and equipment to its estimated fair value. Also included are (i) \$6 million of losses on divestitures related to investments in oil and gas producing properties and (ii) \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our “Other” operations in Note 8. These charges were offset, in part, by gains on divestitures of \$9 million, largely attributable to the sale of a transfer station in our Greater Mid-Atlantic Area.

Other income (expense)

In the first quarter of 2014, we sold our investment in Shanghai Environment Group, which was part of our Wheelabrator business. We received cash proceeds from the sale of \$155 million, which have been included in “Proceeds from divestitures of businesses and other assets (net of cash divested)” within “Net cash used in investing activities” in the Condensed Consolidated Statement of Cash Flows. The losses recognized related to the sale were not material and are recorded in “Other, net” in our Condensed Consolidated Statement of Operations.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the first quarter of 2013, we recognized impairment charges of \$11 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value based on third-party investors' recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment recognized in the second quarter of 2013. These charges are recorded in "Other, net" in our Condensed Consolidated Statement of Operations.

11. Accumulated Other Comprehensive Income

The changes in the balances of each component of accumulated other comprehensive income, net of tax, which is included as a component of Waste Management, Inc. stockholders' equity, are as follows (in millions, with amounts in parentheses representing debits to accumulated other comprehensive income):

| | <u>Derivative Instruments</u> | <u>Available- for-Sale Securities</u> | <u>Foreign Currency Translation Adjustments</u> | <u>Post- Retirement Benefit Plans</u> | <u>Total</u> |
|--|-----------------------------------|---|---|---|--------------|
| Balance, December 31, 2013 | \$ (62) | \$ 6 | \$ 208 | \$ 2 | \$154 |
| Other comprehensive income (loss) before reclassifications net of tax expense (benefit) of \$(7), \$1, \$0 and \$0, respectively | (11) | 2 | (2) | — | (11) |
| Amounts reclassified from accumulated other comprehensive income net of tax (expense) benefit of \$6, \$0, \$0 and \$0, respectively | 9 | — | (17) | — | (8) |
| Net current period other comprehensive income (loss) | (2) | 2 | (19) | — | (19) |
| Balance, June 30, 2014 | <u>\$ (64)</u> | <u>\$ 8</u> | <u>\$ 189</u> | <u>\$ 2</u> | <u>\$135</u> |

The amounts of other comprehensive income (loss) before reclassifications associated with our cash flow derivative instruments are as follows (in millions):

| | Amount of Derivative Gain (Loss) Recognized in OCI (Effective Portion) | | | |
|---|---|--------------|------------------|--------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| <u>Derivatives Designated as Cash Flow Hedges</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| Forward-starting interest rate swaps | \$ — | \$ 10 | \$ (8) | \$ 12 |
| Foreign currency derivatives | (12) | 12 | (2) | 19 |
| Electricity commodity derivatives | 2 | 4 | (8) | (6) |
| Total before tax | (10) | 26 | (18) | 25 |
| Tax (expense) benefit | 4 | (10) | 7 | (10) |
| Net of tax | <u>\$ (6)</u> | <u>\$ 16</u> | <u>\$ (11)</u> | <u>\$ 15</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The significant amounts reclassified out of each component of accumulated other comprehensive income are as follows (in millions, with amounts in parentheses representing debits to the statement of operations classification):

| Detail About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income | | | | Statement of Operations Classification |
|--|---|-------------|---------------------------|-------------|--|
| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
| | 2014 | 2013 | 2014 | 2013 | |
| Gains and losses on cash flow hedges: | | | | | |
| Forward-starting interest rate swaps | \$ (4) | \$ (2) | \$ (5) | \$ (4) | Interest expense |
| Treasury rate locks | — | (1) | (1) | (1) | Interest expense |
| Foreign currency derivatives | (13) | 11 | — | 19 | Other, net |
| Electricity commodity derivatives | — | (1) | (9) | (6) | Operating revenues |
| | (17) | 7 | (15) | 8 | Total before tax |
| | 7 | (3) | 6 | (3) | Tax (expense) benefit |
| Total reclassifications for the period | <u>\$ (10)</u> | <u>\$ 4</u> | <u>\$ (9)</u> | <u>\$ 5</u> | Net of tax |

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, 2014 Using | | |
|-----------------------------------|--------------|--|---|--|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3)(a) |
| Assets: | | | | |
| Money market funds | \$ 83 | \$ 83 | \$ — | \$ — |
| Fixed-income securities | 37 | — | 37 | — |
| Redeemable preferred stock | 40 | — | — | 40 |
| Foreign currency derivatives | 1 | — | 1 | — |
| Total assets | <u>\$161</u> | <u>\$ 83</u> | <u>\$ 38</u> | <u>\$ 40</u> |
| Liabilities: | | | | |
| Electricity commodity derivatives | \$ 1 | \$ — | \$ 1 | \$ — |
| Foreign currency derivatives | 2 | — | 2 | — |
| Total liabilities | <u>\$ 3</u> | <u>\$ —</u> | <u>\$ 3</u> | <u>\$ —</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Total | Fair Value Measurements at December 31, 2013 Using | | |
|-----------------------------------|--------------|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3)(a) |
| Assets: | | | | |
| Money market funds | \$ 99 | \$ 99 | \$ — | \$ — |
| Fixed-income securities | 36 | — | 36 | — |
| Redeemable preferred stock | 25 | — | — | 25 |
| Foreign currency derivatives | 2 | — | 2 | — |
| Total assets | <u>\$162</u> | <u>\$ 99</u> | <u>\$ 38</u> | <u>\$ 25</u> |
| Liabilities: | | | | |
| Interest rate derivatives | \$ 28 | \$ — | \$ 28 | \$ — |
| Electricity commodity derivatives | 3 | — | 3 | — |
| Total liabilities | <u>\$ 31</u> | <u>\$ —</u> | <u>\$ 31</u> | <u>\$ —</u> |

- (a) Level 3 investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered 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 analysis, third-party appraisals or industry multiples and public comparables. The increase in the fair value of our redeemable preferred stock at June 30, 2014 compared to December 31, 2013 is related to \$15 million of preferred stock acquired in conjunction with the sale of our Puerto Rico operations and certain other collection and landfill assets, which is discussed in Note 9. There has not been any significant change in the fair value of the redeemable preferred stock outstanding at December 31, 2013 since our assessment at that time.

Fair Value of Debt

At June 30, 2014, the carrying value of our debt was approximately \$9.8 billion compared with approximately \$10.2 billion at December 31, 2013. 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 \$11.0 billion at both June 30, 2014 and December 31, 2013. 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, 2014 and December 31, 2013. 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; (ii) those that represent a significant interest in an unconsolidated entity and (iii) trusts for final capping, closure, post-closure or environmental remediation obligations for both consolidated and unconsolidated variable interest entities.

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 equity ownership percentages until Hancock and CIT achieve targeted returns on their initial capital investments in each respective LLC. All allocations made through June 30, 2014 have been based on initial equity ownership percentages as the target returns have not yet been achieved for either LLC. We currently expect Hancock and CIT to achieve their targeted return on LLC II in early 2015 and Hancock to achieve its targeted return on LLC I in mid-2015. After the investors have achieved their targeted returns, the LLC agreements provide that we will receive 80% of the earnings of each of the LLCs and Hancock and CIT will be allocated the remaining 20%.

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, 2014 and December 31, 2013, our Condensed Consolidated Balance Sheets included \$278 million and \$284 million, respectively, of net property and equipment associated with the LLCs’ waste-to-energy facilities and \$243 million and \$239 million, respectively, in noncontrolling interests associated with Hancock’s and CIT’s interests in the LLCs. We recognized reductions in consolidated earnings of \$10 million and \$21 million for the three and six months ended June 30, 2014, respectively, and \$11 million and \$22 million for the three and six months ended June 30, 2013, respectively, for Hancock’s and CIT’s noncontrolling interests in the LLCs’ earnings, which are included in our consolidated net income. 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 U.K. Waste-to-Energy and Recycling Entity — In the first quarter of 2012, we formed a U.K. joint venture (the “JV”), together with a commercial waste management company (“Partner”), to develop, construct, operate and maintain a waste-to-energy and recycling facility in England. We own a 50% interest in the JV. We determined that we are not the primary beneficiary of the JV, as all major decisions of the JV require either majority vote or unanimous consent of the directors (who are appointed in equal numbers by us and our Partner) or unanimous consent of the two shareholders of the JV. As such, our Partner shares equally in the power to direct the activities of the JV that most significantly impact its economic performance. Accordingly, we account for this investment under the equity method of accounting and do not consolidate this entity.

Through June 30, 2014, we had funded approximately £18 million, or \$31 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. In addition to the funding commitments described above, the JV has entered into certain foreign currency and interest rate derivatives at the direction of the Norfolk County Council (the “Council”), which awarded the project to the JV. The losses incurred on these derivatives will ultimately be recoverable from the Council under the terms of the project, and accordingly, are not reflected in our “Equity in net losses of unconsolidated entities.”

Following delays in obtaining planning approval, the Council held a special meeting on April 7, 2014 and voted to terminate the project agreement with the JV. The JV then exercised its right to accelerate the effective date of the project agreement’s termination to May 16, 2014. The Council now is obligated to reimburse the JV up to £34 million, or \$58 million, based on the exchange rate as of June 30, 2014, in termination fees and reimbursements required by its agreements with the JV. As a result, any impairment resulting from the termination of the project that we record on account of our interest in the JV will not be material.

Investment in Refined Coal Facility — In January 2011, we acquired a noncontrolling interest in a limited liability company 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, 2014 and December 31, 2013, our investment balance was \$33 million and \$27 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. Required capital contributions commenced in the first quarter of 2013 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 Low-Income Housing Properties — 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. At June 30, 2014 and December 31, 2013, our investment balance was \$116 million and \$129 million, respectively, and our debt balance was \$116 million and \$128 million, respectively. 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.

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. 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." These trusts had a fair value of \$128 million at June 30, 2014 and \$125 million at December 31, 2013. 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 \$112 million and \$110 million as of June 30, 2014 and December 31, 2013, respectively.

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.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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):

CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2014
(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 | \$ — | \$ — | \$ 137 | \$ — | \$ 137 |
| Other current assets | — | 6 | 2,212 | — | 2,218 |
| | — | 6 | 2,349 | — | 2,355 |
| Property and equipment, net | — | — | 12,031 | — | 12,031 |
| Investments in and advances to affiliates | 11,924 | 16,774 | 4,993 | (33,691) | — |
| Other assets | 42 | 27 | 7,724 | — | 7,793 |
| Total assets | <u>\$11,966</u> | <u>\$16,807</u> | <u>\$ 27,097</u> | <u>\$ (33,691)</u> | <u>\$ 22,179</u> |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 456 | \$ — | \$ 330 | \$ — | \$ 786 |
| Accounts payable and other current liabilities | 77 | 13 | 2,104 | — | 2,194 |
| | 533 | 13 | 2,434 | — | 2,980 |
| Long-term debt, less current portion | 5,580 | 449 | 2,982 | — | 9,011 |
| Other liabilities | — | — | 4,041 | — | 4,041 |
| Total liabilities | 6,113 | 462 | 9,457 | — | 16,032 |
| Equity: | | | | | |
| Stockholders' equity | 5,853 | 16,345 | 17,346 | (33,691) | 5,853 |
| Noncontrolling interests | — | — | 294 | — | 294 |
| | 5,853 | 16,345 | 17,640 | (33,691) | 6,147 |
| Total liabilities and equity | <u>\$11,966</u> | <u>\$16,807</u> | <u>\$ 27,097</u> | <u>\$ (33,691)</u> | <u>\$ 22,179</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2013

| | <u>WM</u> | <u>WM</u> <u>Holdings</u> | <u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------|------------------------------|--|---------------------|---------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 58 | \$ — | \$ 58 |
| Other current assets | — | 6 | 2,435 | — | 2,441 |
| | — | 6 | 2,493 | — | 2,499 |
| Property and equipment, net | — | — | 12,344 | — | 12,344 |
| Investments in and advances to affiliates | 12,133 | 16,246 | 4,268 | (32,647) | — |
| Other assets | 42 | 12 | 7,706 | — | 7,760 |
| Total assets | <u>\$12,175</u> | <u>\$16,264</u> | <u>\$ 26,811</u> | <u>\$ (32,647)</u> | <u>\$ 22,603</u> |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 587 | \$ — | \$ 139 | \$ — | \$ 726 |
| Accounts payable and other current liabilities | 109 | 13 | 2,166 | — | 2,288 |
| | 696 | 13 | 2,305 | — | 3,014 |
| Long-term debt, less current portion | 5,772 | 449 | 3,279 | — | 9,500 |
| Other liabilities | — | — | 4,087 | — | 4,087 |
| Total liabilities | 6,468 | 462 | 9,671 | — | 16,601 |
| Equity: | | | | | |
| Stockholders' equity | 5,707 | 15,802 | 16,845 | (32,647) | 5,707 |
| Noncontrolling interests | — | — | 295 | — | 295 |
| | 5,707 | 15,802 | 17,140 | (32,647) | 6,002 |
| Total liabilities and equity | <u>\$12,175</u> | <u>\$16,264</u> | <u>\$ 26,811</u> | <u>\$ (32,647)</u> | <u>\$ 22,603</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2014
(Unaudited)

| | <u>WM</u> | <u>WM Holdings</u> | <u>Non- Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--------------|------------------------|--|---------------------|---------------------|
| Operating revenues | \$ — | \$ — | \$ 3,561 | \$ — | \$ 3,561 |
| Costs and expenses | — | (34) | 3,063 | — | 3,029 |
| Income from operations | — | 34 | 498 | — | 532 |
| Other income (expense): | | | | | |
| Interest expense, net | (87) | (8) | (20) | — | (115) |
| Equity in earnings of subsidiaries, net of taxes | 262 | 233 | — | (495) | — |
| Other, net | — | — | (15) | — | (15) |
| | <u>175</u> | <u>225</u> | <u>(35)</u> | <u>(495)</u> | <u>(130)</u> |
| Income before income taxes | 175 | 259 | 463 | (495) | 402 |
| Provision for (benefit from) income taxes | (35) | (3) | 218 | — | 180 |
| Consolidated net income | 210 | 262 | 245 | (495) | 222 |
| Less: Net income attributable to noncontrolling interests | — | — | 12 | — | 12 |
| Net income attributable to Waste Management, Inc. | <u>\$210</u> | <u>\$ 262</u> | <u>\$ 233</u> | <u>\$ (495)</u> | <u>\$ 210</u> |

Three Months Ended June 30, 2013
(Unaudited)

| | <u>WM</u> | <u>WM Holdings</u> | <u>Non- Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--------------|------------------------|--|---------------------|---------------------|
| Operating revenues | \$ — | \$ — | \$ 3,526 | \$ — | \$ 3,526 |
| Costs and expenses | — | 1 | 3,015 | — | 3,016 |
| Income from operations | — | (1) | 511 | — | 510 |
| Other income (expense): | | | | | |
| Interest expense, net | (91) | (8) | (22) | — | (121) |
| Equity in earnings of subsidiaries, net of taxes | 299 | 305 | — | (604) | — |
| Other, net | — | — | (6) | — | (6) |
| | <u>208</u> | <u>297</u> | <u>(28)</u> | <u>(604)</u> | <u>(127)</u> |
| Income before income taxes | 208 | 296 | 483 | (604) | 383 |
| Provision for (benefit from) income taxes | (36) | (3) | 166 | — | 127 |
| Consolidated net income | 244 | 299 | 317 | (604) | 256 |
| Less: Net income attributable to noncontrolling interests | — | — | 12 | — | 12 |
| Net income attributable to Waste Management, Inc. | <u>\$244</u> | <u>\$ 299</u> | <u>\$ 305</u> | <u>\$ (604)</u> | <u>\$ 244</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)

Six Months Ended June 30, 2014
(Unaudited)

| | <u>WM</u> | <u>WM Holdings</u> | <u>Non- Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|---------------|------------------------|--|---------------------|---------------------|
| Operating revenues | \$ — | \$ — | \$ 6,957 | \$ — | \$ 6,957 |
| Costs and expenses | — | (34) | 5,990 | — | 5,956 |
| Income from operations | — | 34 | 967 | — | 1,001 |
| Other income (expense): | | | | | |
| Interest expense, net | (174) | (16) | (46) | — | (236) |
| Equity in earnings of subsidiaries, net of taxes | 543 | 519 | — | (1,062) | — |
| Other, net | — | — | (27) | — | (27) |
| | <u>369</u> | <u>503</u> | <u>(73)</u> | <u>(1,062)</u> | <u>(263)</u> |
| Income before income taxes | 369 | 537 | 894 | (1,062) | 738 |
| Provision for (benefit from) income taxes | (69) | (6) | 354 | — | 279 |
| Consolidated net income | 438 | 543 | 540 | (1,062) | 459 |
| Less: Net income attributable to noncontrolling interests | — | — | 21 | — | 21 |
| Net income attributable to Waste Management, Inc. | <u>\$ 438</u> | <u>\$ 543</u> | <u>\$ 519</u> | <u>\$ (1,062)</u> | <u>\$ 438</u> |

Six Months Ended June 30, 2013
(Unaudited)

| | <u>WM</u> | <u>WM Holdings</u> | <u>Non- Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|---------------|------------------------|--|---------------------|---------------------|
| Operating revenues | \$ — | \$ — | \$ 6,862 | \$ — | \$ 6,862 |
| Costs and expenses | — | 1 | 5,949 | — | 5,950 |
| Income from operations | — | (1) | 913 | — | 912 |
| Other income (expense): | | | | | |
| Interest expense, net | (180) | (16) | (46) | — | (242) |
| Equity in earnings of subsidiaries, net of taxes | 521 | 532 | — | (1,053) | — |
| Other, net | — | — | (25) | — | (25) |
| | <u>341</u> | <u>516</u> | <u>(71)</u> | <u>(1,053)</u> | <u>(267)</u> |
| Income before income taxes | 341 | 515 | 842 | (1,053) | 645 |
| Provision for (benefit from) income taxes | (71) | (6) | 290 | — | 213 |
| Consolidated net income | 412 | 521 | 552 | (1,053) | 432 |
| Less: Net income attributable to noncontrolling interests | — | — | 20 | — | 20 |
| Net income attributable to Waste Management, Inc. | <u>\$ 412</u> | <u>\$ 521</u> | <u>\$ 532</u> | <u>\$ (1,053)</u> | <u>\$ 412</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, 2014</u> | | | | | |
| Comprehensive income | \$213 | \$ 262 | \$ 288 | \$ (495) | \$ 268 |
| Less: Comprehensive income attributable to noncontrolling interests | — | — | 12 | — | 12 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$213</u> | <u>\$ 262</u> | <u>\$ 276</u> | <u>\$ (495)</u> | <u>\$ 256</u> |
| <u>Three Months Ended June 30, 2013</u> | | | | | |
| Comprehensive income | \$252 | \$ 299 | \$ 283 | \$ (604) | \$ 230 |
| Less: Comprehensive income attributable to noncontrolling interests | — | — | 12 | — | 12 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$252</u> | <u>\$ 299</u> | <u>\$ 271</u> | <u>\$ (604)</u> | <u>\$ 218</u> |
| <u>Six Months Ended June 30, 2014</u> | | | | | |
| Comprehensive income | \$437 | \$ 543 | \$ 522 | \$ (1,062) | \$ 440 |
| Less: Comprehensive income attributable to noncontrolling interests | — | — | 21 | — | 21 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$437</u> | <u>\$ 543</u> | <u>\$ 501</u> | <u>\$ (1,062)</u> | <u>\$ 419</u> |
| <u>Six Months Ended June 30, 2013</u> | | | | | |
| Comprehensive income | \$422 | \$ 521 | \$ 483 | \$ (1,053) | \$ 373 |
| Less: Comprehensive income attributable to noncontrolling interests | — | — | 20 | — | 20 |
| Comprehensive income attributable to Waste Management, Inc. | <u>\$422</u> | <u>\$ 521</u> | <u>\$ 463</u> | <u>\$ (1,053)</u> | <u>\$ 353</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2014
(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 | \$ 438 | \$ 543 | \$ 540 | \$ (1,062) | \$ 459 |
| Equity in earnings of subsidiaries, net of taxes | (543) | (519) | — | 1,062 | — |
| Other adjustments | (39) | — | 719 | — | 680 |
| Net cash provided by (used in) operating activities | <u>(144)</u> | <u>24</u> | <u>1,259</u> | <u>—</u> | <u>1,139</u> |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | — | — | (26) | — | (26) |
| Capital expenditures | — | — | (474) | — | (474) |
| Proceeds from divestitures of businesses (net of cash divested) and other sales of assets | — | 42 | 224 | — | 266 |
| Net receipts from restricted trust and escrow accounts and other, net | — | — | (60) | — | (60) |
| Net cash provided by (used in) investing activities | <u>—</u> | <u>42</u> | <u>(336)</u> | <u>—</u> | <u>(294)</u> |
| Cash flows from financing activities: | | | | | |
| New borrowings | 1,367 | — | 133 | — | 1,500 |
| Debt repayments | (1,685) | — | (240) | — | (1,925) |
| Cash dividends | (349) | — | — | — | (349) |
| Exercise of common stock options | 31 | — | — | — | 31 |
| Distributions paid to noncontrolling interests and other | 1 | — | (24) | — | (23) |
| (Increase) decrease in intercompany and investments, net | 779 | (66) | (713) | — | — |
| Net cash provided by (used in) financing activities | <u>144</u> | <u>(66)</u> | <u>(844)</u> | <u>—</u> | <u>(766)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | — | — |
| Increase (decrease) in cash and cash equivalents | — | — | 79 | — | 79 |
| Cash and cash equivalents at beginning of period | — | — | 58 | — | 58 |
| Cash and cash equivalents at end of period | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 137</u> | <u>\$ —</u> | <u>\$ 137</u> |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Six Months Ended June 30, 2013
(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 | \$ 412 | \$ 521 | \$ 552 | \$ (1,053) | \$ 432 |
| Equity in earnings of subsidiaries, net of taxes | (521) | (532) | — | 1,053 | — |
| Other adjustments | 14 | — | 676 | — | 690 |
| Net cash provided by (used in) operating activities | <u>(95)</u> | <u>(11)</u> | <u>1,228</u> | <u>—</u> | <u>1,122</u> |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | — | — | (210) | — | (210) |
| Capital expenditures | — | — | (501) | — | (501) |
| Proceeds from divestitures of businesses (net of cash divested) and other sales of assets | — | — | 74 | — | 74 |
| Net receipts from restricted trust and escrow accounts and other, net | — | — | (56) | — | (56) |
| Net cash provided by (used in) investing activities | <u>—</u> | <u>—</u> | <u>(693)</u> | <u>—</u> | <u>(693)</u> |
| Cash flows from financing activities: | | | | | |
| New borrowings | 390 | — | 71 | — | 461 |
| Debt repayments | (455) | — | (203) | — | (658) |
| Cash dividends | (341) | — | — | — | (341) |
| Exercise of common stock options | 98 | — | — | — | 98 |
| Distributions paid to noncontrolling interests and other | 7 | — | (32) | — | (25) |
| (Increase) decrease in intercompany and investments, net | 386 | 11 | (397) | — | — |
| Net cash provided by (used in) financing activities | <u>85</u> | <u>11</u> | <u>(561)</u> | <u>—</u> | <u>(465)</u> |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (4) | — | (4) |
| Increase (decrease) in cash and cash equivalents | (10) | — | (30) | — | (40) |
| Cash and cash equivalents at beginning of period | 60 | — | 134 | — | 194 |
| Cash and cash equivalents at end of period | <u>\$ 50</u> | <u>\$ —</u> | <u>\$ 104</u> | <u>\$ —</u> | <u>\$ 154</u> |

15. New Accounting Standard Pending Adoption

In May 2014, the Financial Accounting Standards Board (“FASB”) amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended authoritative guidance associated with revenue recognition is effective for the Company January 1, 2017. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the amended guidance and have not determined whether the adoption will have a material impact on our consolidated financial statements.

16. Subsequent Event

On July 25, 2014, the Company signed a definitive Stock Purchase Agreement to sell our Wheelabrator business to an affiliate of Energy Capital Partners for \$1.94 billion in cash, subject to certain post-closing adjustments. Closing of the sale is expected to occur by the end of 2014, subject to the satisfaction of customary closing conditions and receipt of regulatory approvals. In conjunction with the sale, the Company will enter into a long-term agreement to supply waste to certain Wheelabrator facilities upon closing.

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, 2013.

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 a similar nature and generally include statements containing:

- projections about accounting and finances;
- plans and objectives for the future;
- 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.

Some of the risks that we believe could affect our business and financial statements for 2014 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 cost saving, optimization and growth initiatives and overall business strategy, which could adversely impact our financial performance and growth, and implementation of our initiatives and strategy may have associated negative consequences, such as fragmentation of efforts, increased indebtedness, asset impairments, business disruption, employee distraction, and regulatory issues;
- compliance with existing or future regulations may 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;
- we are investing in emerging technologies to provide disposal alternatives, which may divert capital investment away from our traditional business operations; such emerging technologies may not perform as intended or may experience other difficulties or delays that prevent us from realizing a return on our investment;
- 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;
- diesel fuel price increases or diesel fuel supply shortages may increase our expenses and restrict our ability to operate;
- we are increasingly dependent on the availability of compressed natural gas (“CNG”) and CNG fueling infrastructure and vulnerable to CNG prices; difficulty obtaining CNG and increases in CNG prices could increase our operating costs;
- 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 to support our growth and development plans or to refinance our debt obligations, including near-term maturities, on terms consistent with current borrowings, 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;

- changes in oil and gas prices and drilling activity, and changes in applicable regulations, could adversely affect our Energy and Environmental Services business;
- 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;
- we could fail to achieve the financial results anticipated from the construction of new international waste-to-energy facilities;
- 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 North America’s leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our “Solid Waste” business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, recycling and resource recovery, and disposal services. Through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

Overview

Every day, we are helping industries, communities and individuals reduce, reuse and remove waste better through sound sustainability strategies. We have a precise day-to-day focus on collecting and handling our customers’ waste efficiently and responsibly. Meanwhile, we are also developing and implementing new ways to handle and extract value from waste. Our employees are committed to delivering environmental performance — our mission to maximize resource value, while minimizing environmental impact, so that both our economy and our environment can thrive. Drawing on our resources and experience, we actively pursue projects and initiatives that benefit the waste industry, our customers and the communities we serve and the environment.

We are also committed to providing long-term value to our stockholders by successfully executing on our strategic goals of optimizing our business, knowing and servicing the customer better than anyone else, and extracting more value from the materials we handle. In pursuit of these long-term goals, we have sharpened our focus on the following key priorities:

- Pursue improved profitability through customer-focused segmentation, pricing discipline and strategic acquisitions;
- Continually emphasize cost control and investment in technology and systems that enhance the efficiency of our operations; and

• Invest in emerging technologies that offer alternatives to traditional disposal and generate additional value from the waste, recycling and other streams we manage.

We believe that execution of our strategy through these key priorities will drive continued growth and leadership in a dynamic industry, as customers increasingly seek non-traditional solutions.

Highlights of our financial results for the current quarter include:

• Revenues of \$3,561 million compared with \$3,526 million in the second quarter of 2013, an increase of \$35 million, or 1.0%. This increase in revenues is primarily attributable to (i) positive revenue growth from yield on our collection and disposal operations of \$66 million, or 2.3%, and (ii) acquisitions, particularly the acquisition of the RCI operations in July 2013, which increased revenue by \$37 million. These increases were partially offset by lower volumes and divestitures, which decreased our revenues by \$51 million and \$14 million, respectively;

• Operating expenses of \$2,301 million, or 64.6% of revenues, compared with \$2,311 million, or 65.5% of revenues, in the second quarter of 2013. This decrease of \$10 million is largely driven by improvements in our recycling business, partially offset by operating costs associated with the acquired RCI operations;

• Selling, general and administrative expenses remained flat at \$353 million compared to the second quarter of 2013, driven primarily by a favorable litigation resolution and our continued cost control initiatives;

• Income from operations of \$532 million, or 14.9% of revenues, compared with \$510 million, or 14.5% of revenues, in the second quarter of 2013; and

• Net income attributable to Waste Management, Inc. of \$210 million, or \$0.45 per diluted share, as compared with \$244 million, or \$0.52 per diluted share in the second quarter of 2013.

Our second quarter of 2014 results were affected by the following:

• The recognition of a pre-tax loss of \$25 million on the divestiture of our Puerto Rico operations and certain other collection and landfill assets. No tax benefit was recorded in connection with the loss. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment. These charges had a negative impact of \$0.12 on our diluted earnings per share; and

• The recognition of other net pre-tax charges of \$16 million, primarily as a result of a \$12 million impairment charge due to the decision to close a waste processing facility. These charges had a negative impact of \$0.03 on our diluted earnings per share.

Our second quarter of 2013 results were affected by the recognition of impairment and restructuring charges primarily related to an impairment of a waste-to-energy facility as result of projected operating losses. These charges had a negative impact of \$0.02 on our diluted earnings per share.

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 and other assets (net of cash divested). 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 GAAP measure. However, we believe free cash flow gives investors useful insight into how we view our liquidity. Nevertheless, 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, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net cash provided by operating activities | \$ 555 | \$ 545 | \$1,139 | \$1,122 |
| Capital expenditures | (208) | (235) | (474) | (501) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 100 | 37 | 266 | 74 |
| Free cash flow | <u>\$ 447</u> | <u>\$ 347</u> | <u>\$ 931</u> | <u>\$ 695</u> |

When comparing our cash flows from operating activities for the three and six months ended June 30, 2014 to the comparable periods in 2013, the increases of \$10 million and \$17 million, respectively, were primarily related to the higher cash earnings in the current year and favorable working capital changes. These improvements were partially offset by (i) higher income tax payments in the current year, (ii) higher annual incentive plan payments made in the first quarter of 2014 when compared to 2013 and (iii) the settlement of forward-starting swap liabilities in the first quarter of 2014.

The increase in proceeds from divestitures of businesses and other assets (net of cash divested) is largely driven by (i) the sale of our investment in Shanghai Environment Group (“SEG”) in the first quarter of 2014, which was part of our Wheelabrator business, for \$155 million; (ii) the sale of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014 for proceeds of \$80 million, including \$65 million in cash; and (iii) the sale of a vacant facility in the second quarter of 2014 for \$19 million.

Acquisitions

Greenstar, LLC — On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent, based on changes in certain recyclable commodity indexes, and had an estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers.

RCI Environnement, Inc. — On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec.

Subsequent Event

On July 25, 2014, the Company signed a definitive Stock Purchase Agreement to sell our Wheelabrator business to an affiliate of Energy Capital Partners for \$1.94 billion in cash, subject to certain post-closing adjustments. Closing of the sale is expected to occur by the end of 2014, subject to the satisfaction of customary closing conditions and receipt of regulatory approvals. In conjunction with the sale, the Company will enter into a long-term agreement to supply waste to certain Wheelabrator facilities upon closing.

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 precision from available data or simply cannot be calculated. In some cases, these estimates are 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, 2013. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Results of Operations

Operating Revenues

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business 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 Solid Waste or Wheelabrator businesses, including Strategic Business Solutions, Energy and Environmental Services, recycling brokerage services, electronic recycling services, landfill gas-to-energy services, integrated medical waste services, expanded service offerings and solutions. Part of our expansion of services includes offering fluorescent bulb and universal waste mail-back through our LampTracker® program and portable self-storage services. 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. The following table summarizes revenues during each period (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------|-----------------------------|----------------|---------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Solid Waste: | | | | |
| Tier 1 | \$ 885 | \$ 891 | \$ 1,735 | \$ 1,734 |
| Tier 2 | 1,650 | 1,641 | 3,152 | 3,157 |
| Tier 3 | 911 | 871 | 1,758 | 1,697 |
| Solid Waste | 3,446 | 3,403 | 6,645 | 6,588 |
| Wheelabrator | 206 | 215 | 436 | 420 |
| Other | 551 | 554 | 1,098 | 1,088 |
| Intercompany | (642) | (646) | (1,222) | (1,234) |
| Total | <u>\$3,561</u> | <u>\$3,526</u> | <u>\$ 6,957</u> | <u>\$ 6,862</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, | |
|------------------|--------------------------------|-----------------|------------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial | \$ 856 | \$ 855 | \$ 1,702 | \$ 1,695 |
| Residential | 643 | 652 | 1,278 | 1,297 |
| Industrial | 574 | 558 | 1,090 | 1,070 |
| Other | 88 | 68 | 165 | 126 |
| Total collection | 2,161 | 2,133 | 4,235 | 4,188 |
| Landfill | 732 | 716 | 1,364 | 1,344 |
| Transfer | 357 | 345 | 663 | 645 |
| Wheelabrator | 206 | 215 | 436 | 420 |
| Recycling | 351 | 366 | 698 | 724 |
| Other | 396 | 397 | 783 | 775 |
| Intercompany | (642) | (646) | (1,222) | (1,234) |
| Total | <u>\$ 3,561</u> | <u>\$ 3,526</u> | <u>\$ 6,957</u> | <u>\$ 6,862</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, 2014 vs. 2013 | | Period-to-Period Change for the Six Months Ended June 30, 2014 vs. 2013 | |
|------------------------------|---|----------------------------------|---|----------------------------------|
| | Amount | As a % of Total Company(a) | Amount | As a % of Total Company(a) |
| Average yield(b) | \$ 60 | 1.7% | \$ 146 | 2.1% |
| Volume | (51) | (1.4) | (110) | (1.6) |
| Internal revenue growth | 9 | 0.3 | 36 | 0.5 |
| Acquisitions | 54 | 1.5 | 108 | 1.6 |
| Divestitures | (14) | (0.4) | (18) | (0.3) |
| Foreign currency translation | (14) | (0.4) | (31) | (0.4) |
| Total | <u>\$ 35</u> | <u>1.0%</u> | <u>\$ 95</u> | <u>1.4%</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 (\$3,512 million and \$6,844 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 (dollars in millions):

| | Period-to-Period Change for the Three Months Ended June 30, 2014 vs. 2013 | | Period-to-Period Change for the Six Months Ended June 30, 2014 vs. 2013 | |
|-----------------------------------|---|-------------------------------------|---|-------------------------------------|
| | Amount | As a % of Related Business(i) | Amount | As a % of Related Business(i) |
| Average yield: | | | | |
| Collection, landfill and transfer | \$ 67 | 2.4% | \$ 138 | 2.5% |
| Waste-to-energy disposal(ii) | (1) | (0.9) | (1) | (0.5) |
| Collection and disposal(ii) | 66 | 2.3 | 137 | 2.4 |
| Recycling commodities | (13) | (3.6) | (27) | (3.8) |
| Electricity(ii) | 2 | 3.1 | 29 | 21.2 |
| Fuel surcharges and mandated fees | 5 | 2.9 | 7 | 2.1 |
| Total | <u>\$ 60</u> | 1.7% | <u>\$ 146</u> | 2.1% |

- (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, 2013 adjusted to exclude the impacts of divestitures (in millions):

| | Denominator | |
|-----------------------------------|----------------------------------|--------------------------------|
| | Three Months Ended June 30 | Six Months Ended June 30 |
| Related business revenues: | | |
| Collection, landfill and transfer | \$ 2,798 | \$ 5,446 |
| Waste-to-energy disposal | 115 | 213 |
| Collection and disposal | 2,913 | 5,659 |
| Recycling commodities | 362 | 714 |
| Electricity | 65 | 137 |
| Fuel surcharges and mandated fees | 172 | 334 |
| Total Company | <u>\$ 3,512</u> | <u>\$ 6,844</u> |

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

Our revenues increased \$35 million, or 1.0%, and \$95 million, or 1.4%, for the three and six months ended June 30, 2014, respectively, as compared with the prior year period. Our current periods' revenue growth has been driven by (i) increased revenue growth from our collection and disposal average yield; (ii) acquisitions, particularly the acquired RCI operations, which increased revenues by \$37 million and \$77 million for the three and six months ended June 30, 2014; (iii) higher electricity prices at our merchant waste-to-energy facilities, particularly in the first three months of 2014; and (iv) higher revenues provided by our fuel surcharge program. Offsetting these revenue increases were revenue declines due to lower volumes, lower recyclable commodity prices, divestitures, 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.

Revenue growth from collection and disposal average yield was \$66 million, or 2.3%, and \$137 million, or 2.4%, for the three and six months ended June 30, 2014, respectively, as compared with the prior year period. The details of our three principal collection lines of business are as follows (dollars in millions):

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|-------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| | Amount | As a % of Related Business | Amount | As a % of Related Business |
| Commercial | \$ 32 | 4.2% | \$ 67 | 4.4% |
| Industrial | 22 | 4.2 | 48 | 4.9 |
| Residential | 10 | 1.6 | 17 | 1.3 |
| | <u>\$ 64</u> | | <u>\$ 132</u> | |

Our year-over-year yield growth was driven largely by our pricing strategy implemented in 2013 that combined focused effort on price increases with lower rollbacks. Other drivers affecting the current period average yield include:

• We instituted a fee in April 2013 to help us recover a portion of the significant regulatory costs and fees, such as host fees and disposal taxes, which have not been recouped by our pricing programs. This fee contributed approximately \$14 million and \$30 million to our revenue growth for the three and six months ended June 30, 2014, respectively, principally in our collection business, with the most significant impact in our commercial line of business.

• Revenue growth from yield in our industrial line of business was aided by our continued expansion of the Energy and Environmental Services business, which typically has higher average rates due to extended transportation distances, special waste handling costs and higher disposal costs.

• In our residential line of business, we are focused on bidding on contracts that improve our yield performance and increase our overall returns. Our effort to increase yield in our residential line of business is a challenge principally due to a very competitive environment. A high percentage of our residential business is in municipal franchise markets, and many municipalities are facing significant budget challenges, which results in very competitive bid processes as we rebid contracts and try to win new contracts.

• Yield growth from our landfill and transfer station operations also increased for the three and six months ended June 30, 2014. Improving yield in our landfill business has proved to be a challenge, due, in part, to excess disposal capacity that exists in many of the markets in which we own or operate landfills.

Electricity — Revenue increased \$2 million and \$29 million for the three and six months ended June 30, 2014, respectively, as compared with same prior year period. The year-to-date revenue increase is driven by higher prices at our merchant waste-to-energy facilities due to the exceptionally cold winter conditions that drove a higher demand for electricity in the first three months in 2014 as compared with the prior year period.

Recycling commodities — Decreases in the prices of the recycling commodities we sold resulted in revenue declines of \$13 million and \$27 million for the three and six months ended June 30, 2014, respectively, compared with the same prior year periods.

Fuel surcharges and mandated fees — These revenues, which are predominantly generated by our fuel surcharge program, increased by \$5 million and \$7 million for the three and six months ended June 30, 2014, respectively, driven in part, by higher fuel prices in the second quarter in 2014. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. Although we experienced slightly lower year-over-year average fuel prices in the first six months of 2014 as compared with the prior year period, our fuel surcharge revenues increased as a result of a revision of the surcharge calculation implemented to better capture price increases intended to be recovered by the surcharge. The mandated fees included in this line item are primarily related to pass-through fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations.

Volume — Changes in our volume caused our revenue to decrease \$51 million, or 1.4%, and \$110 million, or 1.6%, for the three and six months ended June 30, 2014, respectively, as compared with the comparable prior year period, driven by declines in our collection business. Our volume fluctuations are generally attributable to economic conditions, pricing changes, competition and diversion of waste by customers. Specifically, our revenue growth due to volume has been negatively affected by our pricing strategy implemented in 2013. We are experiencing volume decline due to the loss of low margin customers that we are not willing to keep at current rates. Additionally, we are experiencing losses of certain municipal contracts that are up for bid. As a result of both the very competitive environment and our focus on reasonable returns, we are facing challenges to keep existing contracts and to win new contracts. Finally, we experienced revenue declines associated with the loss of certain strategic accounts.

Other drivers affecting volumes in the current three- and six-month periods include:

- We experienced revenue declines of approximately \$23 million associated with the severe winter weather conditions in the first quarter of 2014.
- We experienced higher landfill volumes in 2014 driven, in part, by our municipal solid waste business and the event driven increases in our special waste and other landfill businesses.
- We experienced revenue increases due to higher volumes in our ancillary services, primarily driven by increases in our Energy and Environmental Services and our WM Renewable Energy Program.

Our pricing actions and our focus on controlling variable costs have consistently provided margin improvements in our collection line of business, although in the current year, our year-over-year margin was flat. While margins in our industrial line of business continued to expand, we did see margin deterioration in our commercial and residential line of business. The severe weather conditions we experienced in the first quarter of 2014 contributed to the flattening of our year-over-year collection margin for the six months ended June 30, 2014.

Acquisitions and Divestitures — Revenues increased \$54 million and \$108 million for the three and six months ended June 30, 2014, respectively, as compared with the prior year period due to acquisitions. This increase was principally associated with the acquired RCI operations, which is reported primarily in our collection line of business. These revenues were partially offset by revenue decreases of \$14 million and \$18 million for the three and six months ended June 30, 2014, respectively, as compared with the prior year period primarily due to the divestiture of our Puerto Rico operations in the second quarter of 2014.

Operating Expenses

Our operating expenses decreased by \$10 million, or 0.4%, and increased \$13 million, or 0.3%, for the three and six months ended June 30, 2014, respectively, as compared with the three and six months ended June 30, 2013. Our operating expenses as a percentage of revenues decreased to 64.6% in the second quarter of 2014 from 65.5% in the second quarter of 2013, and decreased to 65.2% for the six months ended June 30, 2014 from 65.9% for the six months ended June 30, 2013.

The following table summarizes the major components of our operating expenses, including 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 | |
|---------------------------------------|-----------------------------|-----------------|-------------------------|---------------|---------------------------|-----------------|-------------------------|-------------|
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Labor and related benefits | \$ 630 | \$ 626 | \$ 4 | 0.6% | \$ 1,236 | \$ 1,233 | \$ 3 | 0.2% |
| Transfer and disposal costs | 245 | 257 | (12) | (4.7) | 462 | 482 | (20) | (4.1) |
| Maintenance and repairs | 306 | 301 | 5 | 1.7 | 609 | 603 | 6 | 1.0 |
| Subcontractor costs | 311 | 294 | 17 | 5.8 | 611 | 573 | 38 | 6.6 |
| Cost of goods sold | 252 | 256 | (4) | (1.6) | 489 | 494 | (5) | (1.0) |
| Fuel | 152 | 154 | (2) | (1.3) | 302 | 302 | — | — |
| Disposal and franchise fees and taxes | 172 | 170 | 2 | 1.2 | 326 | 319 | 7 | 2.2 |
| Landfill operating costs | 65 | 54 | 11 | 20.4 | 125 | 112 | 13 | 11.6 |
| Risk management | 54 | 62 | (8) | (12.9) | 110 | 124 | (14) | (11.3) |
| Other | 114 | 137 | (23) | (16.8) | 263 | 278 | (15) | (5.4) |
| | <u>\$ 2,301</u> | <u>\$ 2,311</u> | <u>\$(10)</u> | <u>(0.4)%</u> | <u>\$ 4,533</u> | <u>\$ 4,520</u> | <u>\$ 13</u> | <u>0.3%</u> |

Significant changes in our operating expenses are discussed below.

Labor and related benefits — Significant items affecting the comparability of expenses for the periods presented include:

- Headcount, exclusive of acquisitions, decreased in the current period compared to the prior year period;
- Higher wages due to merit increases effective in the second quarters of 2013 and 2014;
- Increased health and welfare costs;
- Increased incentive compensation; and
- Decreased contract labor principally attributed to the collection line of business.

Subcontractor costs — The current period increases in subcontractor costs were primarily driven by the acquired RCI operations and remediation services within Energy and Environmental Services.

Cost of goods sold — Significant items affecting the comparability of expenses for the periods presented include:

- Increased efforts to reduce controllable recycling rebates paid to customers;
- Better alignment of rebate structures to commodity prices for new recycling contracts;
- Ongoing recycling business improvement efforts around inbound quality control;
- Lower commodity prices;
- Increases related to the acquired RCI operations; and
- Increased business in Organic Growth and remediation services.

Fuel — The decrease in fuel expense when compared to the prior year period was driven by (i) lower fuel purchases due to reduced collection volumes; (ii) lower costs resulting from the conversion of our fleet to CNG vehicles; and (iii) lower fuel prices in the current year. These decreases were offset, in part, by (i) a retroactive CNG fuel excise tax credit recognized in the first quarter of 2013 and (ii) the expiration of the excise credit in 2014.

Disposal and franchise fees and taxes — The increase in costs when compared to the prior periods was due to (i) higher disposal fees driven by increased landfill volumes, including from the acquired RCI operations and (ii) higher municipal franchise fees relating to the collection line of business. These unfavorable variances were offset, in part, by a retroactive surcharge at one of our waste-to-energy facilities in the second quarter of 2013.

Landfill operating costs — The increases in the current period were driven primarily by (i) a favorable discount rate adjustment in the second quarter of 2013 and (ii) higher site maintenance costs during 2014.

Risk management — The decrease in risk management costs when compared to the prior periods was primarily due to lower uninsured losses and, to a lesser extent, decreased performance bond costs and workers compensation claims in the current year.

Other — The decrease is primarily due to the gain on the sale of a vacant facility in the second quarter of 2014.

Selling, General and Administrative

Our selling, general and administrative expenses remained flat when comparing the three months ended June 30, 2014 to the prior year period and declined \$15 million, or 2.0%, when comparing the six month periods. As a percentage of revenue, our selling, general and administrative expenses decreased to 9.9% for the second quarter of 2014 from 10.0% for the second quarter of 2013, and decreased to 10.5% for the six months ended June 30, 2014 from 10.8% for the six months ended June 30, 2013.

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 | |
|----------------------------|-----------------------------|--------------|-------------------------|-----------|---------------------------|--------------|-------------------------|---------------|
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Labor and related benefits | \$234 | \$223 | \$11 | 4.9% | \$477 | \$461 | \$ 16 | 3.5% |
| Professional fees | 32 | 34 | (2) | (5.9) | 58 | 66 | (8) | (12.1) |
| Provision for bad debts | 6 | 6 | — | — | 19 | 26 | (7) | (26.9) |
| Other | 81 | 90 | (9) | (10.0) | 174 | 190 | (16) | (8.4) |
| | <u>\$353</u> | <u>\$353</u> | <u>\$—</u> | <u>—%</u> | <u>\$728</u> | <u>\$743</u> | <u>\$(15)</u> | <u>(2.0)%</u> |

Labor and related benefits — Factors affecting the current year change in our labor and related benefits costs include (i) higher health and welfare and employee benefit costs in 2014, (ii) higher salaries and wages due primarily to merit increases and (iii) higher incentive compensation costs.

Professional fees — Our professional fees decreased primarily due to higher legal fees in 2013 and our concerted effort to reduce consulting fees in 2014.

Provision for bad debts — Our provision for bad debts was higher in 2013, primarily as a result of collection issues we experienced in our Puerto Rico operations during the first quarter of 2013.

Other — Other costs decreased primarily as a result of the reversal of a reserve in the second quarter of 2014 due to a favorable litigation resolution. Additionally, our continued focus on controlling costs resulted in a year-over-year decline in advertising costs.

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 | |
|---|-----------------------------|--------------|-------------------------|-----------|---------------------------|--------------|-------------------------|---------------|
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Depreciation of tangible property and equipment | \$215 | \$213 | \$ 2 | 0.9% | \$428 | \$422 | \$ 6 | 1.4% |
| Amortization of landfill airspace | 104 | 107 | (3) | (2.8) | 188 | 203 | (15) | (7.4) |
| Amortization of intangible assets | 20 | 19 | 1 | 5.3 | 40 | 37 | 3 | 8.1 |
| | <u>\$339</u> | <u>\$339</u> | <u>\$—</u> | <u>—%</u> | <u>\$656</u> | <u>\$662</u> | <u>\$ (6)</u> | <u>(0.9)%</u> |

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

During the first half of 2014, we recognized net charges of \$37 million, primarily related to a \$25 million loss on the divestiture of our Puerto Rico operations and certain other collection and landfill assets as discussed further in Note 9 to the Condensed Consolidated Financial Statements and a \$12 million impairment charge due to the decision to close a waste processing facility.

During the first half of 2013, we recognized net charges of \$15 million, primarily related to a \$14 million impairment charge at a waste-to-energy facility as a result of projected operating losses. We wrote down the carrying value of the facility's property, plant and equipment to its estimated fair value. Also included are (i) \$6 million of losses on divestitures related to investments in oil and gas producing properties and (ii) \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our "Other" operations in Note 8 to the Condensed Consolidated Financial Statements. These charges were offset, in part, by gains on divestitures of \$9 million, largely attributable to the sale of a transfer station in our Greater Mid-Atlantic Area.

Income from Operations

The following table summarizes income from operations 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 | |
|---------------------|-----------------------------|---------------|-------------------------|-------------|---------------------------|---------------|-------------------------|-------------|
| | 2014 | 2013 | | | 2014 | 2013 | | |
| Solid Waste: | | | | | | | | |
| Tier 1 | \$ 223 | \$ 221 | \$ 2 | 0.9% | \$ 441 | \$ 428 | \$ 13 | 3.0% |
| Tier 2 | 335 | 325 | 10 | 3.1 | 619 | 623 | (4) | (0.6) |
| Tier 3 | 149 | 131 | 18 | 13.7 | 273 | 240 | 33 | 13.8 |
| Solid Waste | 707 | 677 | 30 | 4.4 | 1,333 | 1,291 | 42 | 3.3 |
| Wheelabrator | 20 | 4 | 16 | * | 54 | 13 | 41 | * |
| Other | (29) | (27) | (2) | 7.4 | (47) | (68) | 21 | (30.9) |
| Corporate and Other | (166) | (144) | (22) | 15.3 | (339) | (324) | (15) | 4.6 |
| Total | <u>\$ 532</u> | <u>\$ 510</u> | <u>\$ 22</u> | <u>4.3%</u> | <u>\$ 1,001</u> | <u>\$ 912</u> | <u>\$ 89</u> | <u>9.8%</u> |

* Percentage change does not provide a meaningful comparison.

Solid Waste — The most significant items affecting the results of operations of our Solid Waste business during the three and six months ended June 30, 2014 as compared with the prior year periods are summarized below:

- Our base business, excluding recycling, benefited from internal revenue growth as well as from increased fuel recovery;
- Our recycling business contributed favorably compared to the prior year periods principally due to (i) increased efforts to reduce controllable recycling rebates paid to customers; (ii) better alignment of rebate structures to commodity prices for new recycling contracts and (iii) ongoing business improvement efforts around inbound quality control. These favorable variances completely offset lower market prices for recyclable commodities and lower volumes;
- Increased labor costs due to merit increases effective in the second quarter and higher incentive compensation costs; and
- Higher repair and maintenance costs primarily in the current quarter.

In addition, the following items affected specific segments:

- Divestiture of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014, which were included in Tier 3 and Tier 1, respectively;
- Adverse weather in the first quarter of 2014 resulted in lower income from operations primarily in Tier 2;
- The accretive benefits of the acquired RCI operations, which are included in Tier 3;
- The gain on the sale of a vacant facility in the second quarter of 2014, which was included in Tier 3; and
- A reversal of a reserve in the second quarter of 2014 due to a favorable litigation resolution, which was included in Tier 1.

Significant items affecting the comparability of the remaining components of our results of operations for the three and six month periods ended June 30, 2014 are summarized below.

Wheelabrator — The increase in income from operations of our Wheelabrator business was driven in large part by higher electricity prices at our merchant waste-to-energy facilities due to the exceptionally cold winter conditions in the first quarter in 2014 as compared with the prior year period. Other items contributing to the variability included (i) impairment charges at a waste-to-energy facility as a result of projected operating losses in the second quarter of 2013 and (ii) lower repair and maintenance expenses in the current period due to differences in the timing and scope of planned maintenance activities.

Other — Significant items affecting the comparability of results for the periods presented include:

- Improved results in our Strategic Business Solutions as a result of our system and process enhancements;
- Impairment charges incurred in the second quarter of 2014 primarily due to the decision to close a waste processing facility; and
- A favorable adjustment to accrued contingent consideration associated with a prior year acquisition.

Corporate and Other — The most significant items affecting the comparability of expenses for the periods presented include (i) increased health and welfare costs; (ii) a favorable discount rate adjustment to our environmental remediation obligations and recovery assets in the second quarter of 2013 due to increases in U.S. Treasury rates; (iii) higher incentive compensation primarily in the second quarter of 2014 and (iv) favorable risk management adjustments in 2014.

Equity in Net Losses of Unconsolidated Entities

We recognized “Equity in net losses of unconsolidated entities” of \$13 million and \$22 million during the three and six months ended June 30, 2014, respectively, compared with \$8 million and \$16 million during the three and six months ended June 30, 2013, respectively. These losses are 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.

Other, net

We recognized other, net expense of \$2 million and \$5 million for the three and six months ended June 30, 2014, respectively, compared with other, net income of \$2 million for the three months ended June 30, 2013 and other, net expense of \$9 million for the six months ended June 30, 2013. In the first quarter of 2014, we sold our investment in SEG, which was part of our Wheelabrator business. We received cash proceeds from the sale of \$155 million. The losses recognized related to the sale were not material. During the first quarter of 2013, we recognized impairment charges of \$11 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value based on third-party investors' recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment recognized in the second quarter of 2013.

Provision for Income Taxes

We recorded a provision for income taxes of \$180 million during the second quarter of 2014, representing an effective income tax rate of 44.7%, compared with a provision for income taxes of \$127 million during the second quarter of 2013, representing an effective income tax rate of 33.2%. Our effective income tax rate for the first half of 2014 was 37.8% compared with 33.0% for the first half of 2013.

Our provision for income taxes during the second quarter of 2014 was unfavorably impacted by the divestiture of our Puerto Rico operations and certain other collection and landfill assets. No tax benefit was recorded in connection with the \$25 million loss incurred. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment.

Our investments in low-income housing properties and the refined coal facility reduced our provision for income taxes for the three and six months ended June 30, 2014 by \$14 million and \$25 million, respectively, and for the three and six months ended June 30, 2013 by \$16 million and \$26 million, respectively. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

Noncontrolling Interests

Net income attributable to noncontrolling interests was \$12 million and \$21 million for the three and six months ended June 30, 2014, respectively, and \$12 million and \$20 million for the three and six months ended June 30, 2013, respectively. 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 business. 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, 2014 and December 31, 2013 (dollars in millions):

| | June 30, 2014 | December 31, 2013 |
|--|------------------|----------------------|
| Cash and cash equivalents | \$ 137 | \$ 58 |
| Restricted trust and escrow accounts: | | |
| Final capping, closure, post-closure and environmental remediation funds | \$ 128 | \$ 125 |
| Tax-exempt bond funds | 14 | 27 |
| Other | 11 | 15 |
| Total restricted trust and escrow accounts | \$ 153 | \$ 167 |
| Debt: | | |
| Current portion | \$ 786 | \$ 726 |
| Long-term portion | 9,011 | 9,500 |
| Total debt | \$9,797 | \$ 10,226 |
| Increase in carrying value of debt due to hedge accounting for interest rate swaps | \$ 51 | \$ 59 |

As of June 30, 2014, we had (i) \$517 million of debt maturing within the next 12 months, including \$350 million of 6.375% senior notes that mature in March 2015 and \$102 million of tax-exempt bonds; (ii) \$105 million of short-term borrowings outstanding under the U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and (iii) \$905 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance portions of our current obligations on a long-term basis as of June 30, 2014, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$741 million of this debt as long-term and the remaining \$786 million as current obligations. The \$741 million classified as long-term is less than our unused and available capacity under our \$2.25 billion revolving credit facility of \$1.3 billion due to expected decreases in such available capacity within the next 12 months.

Summary of Cash Flow Activity

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

| | Six Months Ended June 30, | |
|---|---------------------------------|----------|
| | 2014 | 2013 |
| Net cash provided by operating activities | \$ 1,139 | \$ 1,122 |
| Net cash used in investing activities | \$ (294) | \$ (693) |
| Net cash used in financing activities | \$ (766) | \$ (465) |

Net Cash Provided by Operating Activities — The most significant items affecting the comparison of our operating cash flows for the six-month period ended June 30, 2014 with the comparable prior year period are summarized below:

- *Increase in earnings* — Our income from operations, excluding depreciation and amortization, increased by \$83 million on a year-over-year basis. Included in the earnings increase was approximately \$16 million of net charges, associated principally with net losses on the sale of divested operations that have no effect on cash flow provided by operating activities.

- *Increase in tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$75 million higher on a year-over-year basis due to higher pre-tax earnings, the expiration of the bonus depreciation provisions, and the divestiture of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014.
- *Increase in bonus payments* — Payments for our annual incentive plans are typically paid in the first quarter of the year for the prior year. The annual incentive plan payments made in the first quarter of 2014 exceeded those made in the first quarter of 2013 by \$73 million.
- *Forward-starting swaps* — During the first quarter of 2014, the forward-starting interest rate swaps associated with the anticipated issuance of senior notes in 2014 matured, and we paid cash of \$36 million to settle the liabilities related to the swaps. This cash payment has been classified as a change in “Accounts payable and accrued liabilities” within “Net cash provided by operating activities” in the Condensed Consolidated Statement of Cash Flows.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was favorably impacted by \$118 million on a year-over-year basis by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by variability in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable, 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 periods ended June 30, 2014 and 2013 are summarized below:

- *Capital expenditures* — We used \$474 million in the first half of 2014 compared with \$501 million in the first half of 2013 for capital expenditures. Approximately \$167 million of our capital expenditures accrued in the fourth quarter of 2013 were paid in cash in the first quarter of 2014 compared with approximately \$171 million of our capital expenditures accrued in the fourth quarter of 2012 that were paid in cash in the first quarter of 2013.
- *Divestitures* — Proceeds from divestitures of businesses and other assets (net of cash divested) were \$266 million in the first half of 2014 compared with \$74 million in the first half of 2013. In the first quarter of 2014, we sold our investment in SEG and received cash proceeds of \$155 million. In the second quarter of 2014, we sold our Puerto Rico operations and certain other collection and landfill assets and received proceeds from the sale of \$80 million, consisting of \$65 million of cash and \$15 million of preferred stock.
- *Acquisitions* — Our spending on acquisitions was \$26 million in the first half of 2014 compared with \$210 million in the first half of 2013. In 2013, our acquisitions consisted primarily of the recycling operations of Greenstar, for which we paid \$170 million.

Net Cash Used in Financing Activities — During the first half of 2014, net cash used in financing activities was \$766 million, compared with \$465 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, 2014 and 2013 are summarized below:

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

| | Six Months Ended June 30, | |
|--|---------------------------------|----------------|
| | 2014 | 2013 |
| <i>Borrowings:</i> | | |
| U.S. revolving credit facility | \$ 1,020 | \$ 390 |
| Canadian credit facility and term loan | 74 | 25 |
| Senior notes | 347 | — |
| Capital leases and other debt | 59 | 46 |
| | <u>\$ 1,500</u> | <u>\$ 461</u> |
| <i>Repayments:</i> | | |
| U.S. revolving credit facility | \$(1,335) | \$(455) |
| Canadian credit facility and term loan | (134) | (75) |
| Senior notes | (350) | — |
| Tax-exempt bonds | (15) | (67) |
| Capital leases and other debt | (91) | (61) |
| | <u>\$(1,925)</u> | <u>\$(658)</u> |
| <i>Net repayments</i> | <u>\$ (425)</u> | <u>\$(197)</u> |

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

• *Dividend payments* — We paid \$349 million in cash dividends in the first half of 2014 compared with \$341 million in the first half of 2013. The increase in dividend payments is primarily due to our quarterly per share dividend declared increasing from \$0.365 in 2013 to \$0.375 in 2014.

• *Share repurchases* — In February 2014, the Board of Directors authorized up to \$600 million in future share repurchases. No share repurchases were made in the first half of 2014.

Liquidity Impacts of Income Tax Items

Bonus Depreciation — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

The acceleration of depreciation deductions related to qualifying capital expenditures in 2013 decreased our 2013 cash taxes by approximately \$70 million. However, taking accelerated depreciation deductions results in increased cash taxes in subsequent periods when the depreciation deductions related to the capital expenditures would have otherwise been taken. Overall, the effect of all applicable years' bonus depreciation programs results in increased cash taxes of \$40 million in 2013 and \$95 million in 2014.

Uncertain Tax Positions — We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are included as a component of long-term "Other liabilities" in our Condensed Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. We are not able to reasonably estimate when we would make

any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$9 million of liabilities for unrecognized tax benefits, including accrued interest, and \$3 million of related tax assets may be reversed within the next 12 months. The anticipated reversals are primarily related to state tax items, none of which are material, and are expected to result from 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, 2014, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

New Accounting Standard Pending Adoption

In May 2014, the Financial Accounting Standards Board (“FASB”) amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended authoritative guidance associated with revenue recognition is effective for the Company January 1, 2017. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the amended guidance and have not determined whether the adoption will have a material impact on our consolidated financial statements.

Seasonal Trends

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

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

Inflation

While inflationary increases in costs have affected our income from operations 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, 2014, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2014 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Control over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended June 30, 2014. We determined that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2014 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, 2013 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> |
|--------------------|---|
| 4.1 | — Officers’ Certificate delivered pursuant to Section 301 of the Indenture dated September 10, 1997 by and between Waste Management, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, establishing the terms and form of the 3.50% Senior Notes due 2024 [incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed May 8, 2014]. |
| 4.2 | — Guarantee Agreement by Waste Management Holdings, Inc. in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee for the holders of the 3.50% Senior Notes due 2024 [incorporated by reference to Exhibit 4.4 to Current Report on Form 8-K filed May 8, 2014]. |
| 4.3 | — Amended and Restated By-laws of Waste Management Holdings, Inc. |
| 10.1 | — Waste Management, Inc. 2014 Stock Incentive Plan [incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 15, 2014]. |
| 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 James C. Fish, Jr., Executive Vice President and Chief Financial Officer. |
| 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 James C. Fish, Jr., Executive Vice President and Chief Financial Officer. |
| 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 Labels 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/ JAMES C. FISH, JR.
James C. Fish, Jr.
*Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)*

WASTE MANAGEMENT, INC.

By: _____ /s/ DON P. CARPENTER
Don P. Carpenter
*Vice President and
Chief Accounting Officer
(Principal Accounting Officer)*

Date: July 29, 2014

**AMENDED AND RESTATED BY-LAWS
OF
Waste Management Holdings, Inc.
(hereinafter called the "Corporation")**

**ARTICLE I
OFFICES**

Section 1. Registered Office. The registered office of the Corporation shall be c/o CT Corporation System, 1209 Orange Street, Wilmington, Delaware 19801.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

**ARTICLE II
MEETINGS OF STOCKHOLDERS**

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect directors and transact such other business as may properly be brought before the meeting. Written notice of each annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 3. Special Meetings. Special meetings of stockholders may be called by the President or the Board of Directors. Notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 4. Quorum; Adjournment. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice of any such adjourned meeting other than announcement of the time and place thereof at the meeting at which the adjournment is taken, until a quorum shall be present or represented. Additionally, the chairman of the meeting shall have power to adjourn, postpone, or recess the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned, postponed, or recessed meeting. At any such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-laws, (i) any question brought before any meeting of stockholders at which a quorum is present shall be decided by the vote of the holders of a majority of the outstanding shares of stock represented and entitled to vote thereon and (ii) each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three (3) years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholders and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting at the principal place of business of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

ARTICLE III DIRECTORS

Section 1. Number and Election of Directors. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of one or more directors, the exact number of directors to be determined from time to time by resolution adopted by the affirmative vote of a majority of the directors then in office. At each annual meeting of stockholders beginning with the first, directors shall be elected. Each director shall hold office until the ensuing meeting or until such director's successor is elected and qualified or until such director's earlier death, resignation, or removal. Directors of the Corporation may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

Section 2. Vacancies. Any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

Section 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Corporation's Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the President or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the time of the meeting, by telephone, electronic facsimile or telegram not less than twelve (12) hours before the time of the meeting.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Corporation's Certificate of Incorporation or these By-laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of Board. Unless otherwise provided by the Corporation's Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or electronic transmission is filed with the minutes of proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Corporation's Certificate of Incorporation or these By-laws, members of the Board of Directors of the Corporation, or any committee

designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 of this Article III shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 9. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV OFFICERS

Section 1. General. The offices of the Corporation shall be chosen by the Board of Directors and shall be a President and a Secretary. The Board of Directors, in its discretion, may also choose one Treasurer and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Corporation's Certificate of Incorporation or these By-laws. The officers of the Corporation need not be stockholders of the Corporation nor need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer may be removed at any time with or without cause by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries and other compensation of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. The President. The President shall be the chief executive officer and the chief operating officer of the Corporation, shall have general direction of the business and affairs of the Corporation and general supervision over its several officers, subject, however, to the control of the Board of Directors and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President may sign certificates representing shares of stock of the Corporation. The President may execute and deliver, in the name and on behalf of the Corporation, (i) contracts or other instruments authorized by the Board of Directors and (ii) contracts or instruments in the usual and regular course of business except in cases when the execution and delivery thereof shall be expressly delegated or permitted by the Board of Directors or by these By-laws to some other officer or agent of the Corporation. The President shall preside at meetings of the stockholders. In addition, the President shall perform all other duties incident to the office of President and have such other powers and perform such other duties as from time to time may be assigned to him by the Board of Directors or as are prescribed by these By-laws.

Section 5. Vice Presidents. Vice Presidents, if there be any, shall perform all duties incident to the office of Vice President and have such other powers and perform such other duties as from time to time may be assigned to him by these By-laws, by the Board of Directors or by the President. The Vice President may sign certificates of stock of the Corporation. In the absence or disability of the President, a Vice President may preside at meetings of the stockholders.

Section 6. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by such officer's signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be. In addition, the Secretary shall perform all other duties incident to the office of the Secretary and have such other powers and perform such other duties as may be prescribed by the Board of Directors or the President.

Section 7. Treasurer. The Treasurer, if there be one, shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. In addition, the Treasurer shall perform all other duties incident to the office of the Treasurer and have such other powers and perform such other duties as may be prescribed by the Board of Directors or the President.

Section 8. Assistant Secretaries. Except as may be otherwise provided in these By-laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of the Secretary's disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 9. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of the Treasurer's disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer.

Section 10. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V STOCK

Section 1. Form of Certificates. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock in the Corporation represented by certificates shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman or Vice-Chairman of the Board, if any, or the President or a Vice President and (ii) by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer of the Corporation, certifying the number of shares owned by such holder of stock in the Corporation.

Section 2. Signatures. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or such owner's legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls

and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI NOTICES

Section 1. Notices. Whenever notice is required by law, the Corporation's Certificate of Incorporation or these By-laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice may also be given personally, by telephone or by electronic transmission.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Corporation's Certificate of Incorporation or these By-laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE VII GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to applicable law and the provisions of the Corporation's Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal, if there shall be one, shall be in such form as the Board of Directors may prescribe.

Section 5. Contracts. Except as otherwise provided in these By-laws or by law or as otherwise directed by the Board of Directors, the President, any Vice President, the Treasurer, the Assistant Treasurer, the Secretary, or the Assistant Secretary shall be authorized to execute and deliver, in the name and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate, shall be affixed thereto by any such officer or the Secretary or an Assistant Secretary. The Board of Directors or the President or, if designated by the Board of Directors or the President, then any Vice President or the Secretary, may authorize any other officer, employee, or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board of Directors or any such officer may be general or confined to specific conditions. Subject to the foregoing provisions, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 6. Checks, Etc. All checks, demands, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation may be signed by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate and,

if so required by the Board of Directors, shall be countersigned by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate, and in such manner, as shall be determined by the Board of Directors.

Section 7. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select. Checks, drafts, bills of exchange, acceptances, notes, obligations, and orders for payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate.

Section 8. Loans. No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized so to do, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company, or other institution or from any individual, corporation, or firm, and for such loans and advances may make, execute, and deliver promissory notes, bonds, or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate, or transfer as security for the payment of any and all loans, advances, indebtedness, and liabilities of the Corporation, any and all stocks, securities, and other real or personal property at any time held by the Corporation and to that end may endorse, assign, and deliver same. Such authority may be general or confined to specific instances.

ARTICLE VIII INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings Other than Those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer, of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by the

Board of Directors by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

Section 4. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 4 of this Article VIII shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 5. Expenses Payable in Advance. Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding may be required by the Board of Directors to be paid (upon such terms and conditions, if any, as the Board deems appropriate) by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

Section 6. Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in a person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Section 1 of Section 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

Section 7. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by him in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article VIII.

Section 8. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such indemnification relates to such person's acts while serving in any of the foregoing capacities, of such constituent corporation, as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the

Corporation” shall include any service as a director or officer of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VIII.

Section 9. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 10. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 4 of this Article VIII), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 11. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

ARTICLE IX AMENDMENTS

Section 1. Except as otherwise provided in the Corporation’s Certificate of Incorporation, these By-laws may be altered, amended or repealed, in whole or in part, or new By-laws may be adopted by the stockholders or by the Board of Directors. Except as otherwise provided in the Corporation’s Certificate of Incorporation, all such amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors then in office.

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David P. Steiner, certify that:

i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;

ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID P. STEINER

David P. Steiner

President and Chief Executive Officer

Date: July 29, 2014

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James C. Fish, Jr., certify that:

i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;

ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.

*Executive Vice President and
Chief Financial Officer*

Date: July 29, 2014

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Steiner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID P. STEINER

David P. Steiner

President and Chief Executive Officer

July 29, 2014

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Fish, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.
*Executive Vice President and
Chief Financial Officer*

July 29, 2014

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, 2014, 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, 2014, 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.