

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND 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 STREET, SUITE 4000
HOUSTON, TEXAS
(Address of principal executive offices)

77002
(Zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 512-6200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF
EACH CLASS
NAME OF
EXCHANGE
ON WHICH
REGISTERED

Common
Stock,
\$0.01 par
value New
York Stock
Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
5.75% CONVERTIBLE SUBORDINATED NOTES DUE 2005

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 28, 2002, was approximately \$15.8 million. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange ("NYSE"). (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [X] No []

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at February 18, 2003, was 594,964,062 (excluding treasury shares of 35,318,399).

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT
INCORPORATED
AS TO -----

Proxy
Statement
for the
2003 Annual
Meeting of
Stockholders
Part III

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PART I

ITEM 1. BUSINESS

GENERAL

Waste Management, Inc. is our industry's leading provider of integrated waste services in North America. Through our subsidiaries, we provide collection, transfer, recycling and resource recovery, and disposal services. We are also a leading developer, operator and owner of waste-to-energy facilities in the United States. Our customers include commercial, industrial, municipal and residential customers, other waste management companies, governmental entities and independent power market participants. During 2002, none of our customers accounted for more than 5% of our operating revenue. We employed approximately 53,000 people as of December 31, 2002.

The Company was incorporated in Oklahoma in 1987 under the name "USA Waste Services, Inc." and was reincorporated as a Delaware company in 1995. In 1998, we merged with Waste Management, Inc., who became our 100% owned subsidiary and whose name we changed to Waste Management Holdings, Inc., or "WM Holdings" (the "WM Holdings Merger"). At the same time, we changed our name to Waste Management, Inc. When the terms "Waste Management," "WMI," the "Company," "we," "us" or "our" are used in this document, those terms are being used to refer to Waste Management, Inc., its subsidiaries, affiliates and predecessors, unless the context requires otherwise. The Company's 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 <http://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 "WMI."

STRATEGY

Our goal is operational excellence and financial strength, which we seek to achieve by concentrating on (i) providing excellent customer service, (ii) generating higher profit margins, (iii) increasing cash flow and (iv) maintaining our credit ratings at investment grade. The key initiatives that we have focused on and continue to make progress in include:

- Asset Utilization -- We have, and continue to develop, integrated local business strategies for our operations, including collection, disposal (including waste-to-energy plants), and transfer, to achieve higher rates of internalization and to improve our overall utilization of our asset base;
- Service Excellence -- We continue to design and implement new procedures to better meet our customers' requirements;
- Economies of Scale and Cost Efficiencies -- We continue to implement a procurement and sourcing process that leverages our size and total purchasing ability to realize savings and discounts through consolidation and reduction of the number of suppliers we use; we continue to manage closely our capital and other expenditures;
- Price/Revenue Management -- We are improving our pricing analysis capabilities, and developing and implementing new revenue management systems;
- Sales Force Effectiveness -- We continue to provide tools, leadership and incentives throughout our organization that are designed to enable and encourage our sales force to improve its effectiveness and increase revenue; and
- Shareholder Value -- We focus on enhancing shareholder value by such things as our share repurchases as well as emphasizing earnings and cash flow growth, while continuing to maintain a strong, liquid and flexible financial condition. We also strive to maintain close relationships with banks, bondholders, credit rating agencies, surety companies and regulators to ensure adequate access to a variety of capital markets and funding sources.

OPERATIONS

GENERAL

In 2002, we adopted and implemented a new organizational structure designed to better align collection, transport, recycling and disposal resources within market areas. We believe the new structure will yield a number of benefits, including clearer accountability and responsibility for business performance and profitability in specific markets; simplification of structure; cost savings through consolidation of duplicate administrative and other support functions; improved utilization of operating assets; and better customer responsiveness.

In March 2002 all of our operations, other than Wheelabrator Technologies Inc. ("WTI") and Canadian Waste Services ("CWS"), were restructured to reduce the number of field layers of management from four to three and the number of field layers that have administrative staff from four to two. Under the new structure, our approximately 1,200 operating sites, including waste collection depots, transfer stations, landfills and recycling facilities, were restructured into approximately 82 newly established Market Areas. These Market Areas are responsible for the sales and marketing of our services and for directing the delivery of service by the districts. The Market Area is also the profit center, and the districts, all of which used to be profit centers, became cost centers. The largest Market Areas are headed by a Vice President and the others are headed by a General Manager. The Market Areas consolidate financial reporting and provide a range of assistance in the areas of finance and accounting, procurement, people, market planning and development, fleet services, recycling, legal services, engineering, regulatory compliance, safety and public affairs to support the districts. These Market Areas all report to one of our four Groups that divide the United States geographically into the Eastern, Midwest, Southern and Western operations we formerly called "Areas." CWS, which was restructured into ten newly established Market Areas in July 2002, and WTI, which manages our waste-to-energy facilities and independent power production plants ("IPPs"), were the fifth and sixth Areas under our previous structure and continue as the fifth and sixth Groups under the new structure.

Our North American Solid Waste ("NASW") operations are comprised of our six Groups, along with our other NASW services, which include our national recycling, national accounts and methane gas recovery operations that provide services throughout the Groups. Each of the Groups within NASW and the other NASW services is reported as a separate segment. We also had international waste management and non-solid waste services, all of which were divested by March 31, 2002. However, these operations did impact our prior years results of operations, as discussed further in Management's Discussion and Analysis of Financial Condition and Results of Operations, and are therefore included in our presentations in this report as "Other."

The table below shows for each of the years in the three-year period ended December 31, 2002 the total revenues (in millions) contributed by each of our reportable segments. The prior year information has been restated to conform to the current year presentation as described above. More information about our results of operations by reportable segment is included in Note 15 to the consolidated financial statements.

YEARS ENDED DECEMBER 31, -----	2002	2001	2000	-----
Canada.....		\$ 524	\$ 530	\$ 548
Eastern.....		3,816	3,783	3,849
Midwest.....		2,289	2,327	2,408
Southern.....		3,016	2,999	3,010
Western.....		2,480	2,541	2,552
WTI.....		789	802	902
NASW.....		174	175	219
Intercompany.....	(1,999)	(1,994)	(2,022)	-----
NASW.....		11,162	11,422	11,134
Other.....	8	160	1,070	-----
Revenues.....		\$11,142	\$11,322	-----
		\$12,492	=====	=====

Net Operating

Revenues

\$12,492 =====

NASW

The services provided by our NASW segments include collection, disposal (solid waste and hazardous waste landfills), transfer, WTI's waste-to-energy facilities and IPPs, recycling and other services, as described below. The following table shows for each of the years in the three-year period ended December 31, 2002 revenues (in millions) contributed by our principal services.

YEARS ENDED DECEMBER 31, -----	-----	-----	-----
2002	2001	2000	-----
Collection.....	\$ 7,598	\$ 7,584	\$ 7,675
Landfill.....	2,660	2,743	2,730
Transfer.....	1,451	1,435	1,394
WTI (waste-to-energy and IPPs).....	789	802	902
Recycling and other.....	635	592	743
Intercompany.....	(1,999)	(1,994)	(2,022)
Total NASW.....	\$11,162	\$11,422	=====

Collection. Our commitment to the customer begins with a vast waste collection network. Collection involves picking up and transporting waste from where it was generated to a transfer station or disposal site. Depending on the type of customer being served, we generally provide collection services under one of two types of arrangements:

- For commercial and industrial collection services, there is generally a one to three-year service agreement. The fees under the agreements are determined by factors such as collection frequency, type of collection equipment furnished by us, type and volume or weight of the waste collected, the distance to the disposal facility, labor cost and cost of disposal. As part of the service, we provide steel containers to most of the customers to store their solid waste. The containers range in size from one to 50 cubic yards and are designed so that they can be lifted mechanically and either emptied into a truck's compaction hopper or directly into a disposal site. By using these containers, we can service most of our commercial and industrial customers with trucks operated by only one employee.
- For most residential collection services, there is a contract with, or franchise granted by, a municipality or regional authority that has granted us the exclusive right to service all or a portion of the homes in that area. These contracts or franchises are typically for one to five years, but can sometimes be longer. The fees for residential collection are either paid by the authorities from their tax revenues or service charges, or are paid directly by the residents receiving the service.

Landfill. Landfills are the main depository for solid waste in North America and we have the largest network of landfills in North America. Solid waste landfills are built and operated under prescribed procedures. Currently, solid waste landfills in the United States must be designed, permitted, operated, closed and maintained after closure in compliance with federal, state and local regulations pursuant to Subtitle D of the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). The operation of a solid waste landfill includes excavation, construction of liners and final caps, continuous spreading and compacting of waste, and covering of waste with earth or other inert material at least once a day. These operations are carefully planned to maintain sanitary conditions, to ensure the best possible use of the airspace and to prepare the site so it can ultimately be used for other purposes.

Access to a disposal facility, such as a solid waste landfill, is a necessity for all solid waste management companies. While access can be obtained to disposal facilities owned or operated by third parties, we believe it is usually preferable for our collection operations to use disposal facilities that we own or operate, which we refer to as internalization. When we have internalization, we pay ourselves instead of a third party and generally are able to realize higher consolidated margins and stronger operating cash flows. The fees charged at disposal facilities, which are known as "tipping fees," are based on market factors and the type and weight or volume of solid waste deposited and the type and size of the vehicles used in the transportation of the waste.

The following table reflects landfill capacity and airspace changes, as measured in tons, for landfills operated during the years ended December 31, 2002 and December 31, 2001, respectively (in millions):

YEARS ENDED DECEMBER 31,	2002	2001
PROBABLE PROBABLE PERMITTED EXPANSION TOTAL PERMITTED EXPANSION TOTAL AIRSPACE AIRSPACE AIRSPACE AIRSPACE AIRSPACE		
Balance, beginning of year.....	2,748	1,420
Acquisitions, divestitures and closures.....	1,420	4,168
-- 24 (1) (7) (8) New expansions pursued.....	1,478	3,925
Permits granted.....	163	(163)
Airspace consumed.....	(116)	(116)
Changes in engineering estimates.....	38	37
Balance, end of year.....	2,857	1,385
	4,242	2,748
	1,420	4,168

The estimated operating lives, based on remaining permitted and probable expansion capacity and projected annual disposal volume, in years, as of December 31, 2002, is as follows:

	0 TO 5	6 TO 10	11 TO 20	21 TO 40	41+
TOTAL	29	24	36	80	77
Owned/operated through lease.....	16	5	8	13	5
Operating contracts, primarily with municipalities.....	13	5	47		
Total landfills.....	29	44	93	82	293

The tonnage volume that we received in 2002 and 2001 at all of our landfills is shown below (tons in thousands):

2002	2001
TOTAL TONS PER DAY	TOTAL TONS PER DAY
288	113,795
118,234	435
Solid waste landfills.....	
Hazardous	

waste

landfills.....									
5	1,112	4	5	1,933	7	---			

--	---	293	114,907	422					
302	120,167	442	===	===					
Solid waste landfills									
closed during related									
year.....									
11	2,286	11	648	---	---				

						304			
117,193(a)	313	120,815							
===	=====	===							
	=====								

- - - - -

(a) This amount includes approximately 1.2 million tons that were received at the landfill but never placed within the permitted airspace due to alternative use of the disposed material.

When a landfill has reached its permitted waste capacity and has been permanently capped and receives certification of closure from the applicable regulatory agency, management of the site, including any remediation activities, is transferred to our closed sites management group. At December 31, 2002, 167 closed landfills, which we owned or operated, were managed by our closed sites management group, which is part of our Corporate function for segment reporting purposes.

Transfer. A transfer station is a facility located near residential and commercial collection routes where collection trucks take the solid waste that has been collected. The solid waste is then transferred via transfer trucks or rail to disposal sites. Fees at transfer stations are usually based on the type and volume or weight of

the waste transferred and the distance to the disposal site. At December 31, 2002, we operated 346 transfer stations in North America. There are two main reasons for using transfer stations:

- Using transfer stations reduces the costs associated with transporting waste to final disposal sites. This cost reduction is due to the fact that the trucks, railcars or rail containers that we use for transfer have a larger capacity than collection trucks, allowing more waste to be transported to the disposal facility in each trip. The consolidation of the waste also increases the efficiency of our collection personnel and equipment since they are able to focus on collection activities rather than making trips to the disposal sites.
- The use of transfer stations also improves internalization by allowing us to retain fees that we would otherwise pay a third party to dispose of waste we collect. A greater percentage of the waste we collect can be disposed of at one of our own disposal sites because the waste coming into one of our transfer stations will usually be taken to one of our own disposal facilities. Additionally, more waste is internalized since the transfer vehicles can transport waste longer distances more efficiently as described above.

The transfer stations that we operate but do not own are generally operated through a lease agreement under which we lease the land and/or the improvements on the land from a third party. There are some instances where the transfer station is operated under contract, generally for municipalities. In most instances, we are the owner of the permit and will be responsible for all of the closure requirements under the lease and operating agreements.

WTI. Through WTI, we own, or operate under agreements, 16 waste-to-energy facilities that accept solid waste for disposal. Our waste-to-energy facilities are capable of processing up to 23,825 tons of solid waste each day. In 2002 and 2001, we received approximately 7,175,000 total tons, or approximately 19,700 tons per day, and approximately 7,400,000 total tons, or approximately 20,000 tons per day, respectively, at our waste-to-energy facilities. The solid waste is burned at high temperatures in specially designed boilers at these facilities, producing heat that is converted into high-pressure steam. We use that steam to generate electricity for sale to electric utilities under long-term contracts. Our waste-to-energy facilities can generate up to 671 megawatts ("mW") of renewable electricity per hour.

Also included in our WTI operations are our eight IPPs that convert various waste and conventional fuels into electricity. The IPPs combust wood waste, anthracite coal waste (culm), tires, landfill gas and natural gas. The wood waste facilities are integral to the solid waste industry, disposing of urban wood, waste tires, railroad ties and utility poles. Our anthracite culm facility in Pennsylvania processes the waste materials left over from coal mining operations from over half a century ago. Ash remaining after burning the culm piles at the facility is used to reclaim the land damaged by decades of coal mining. In addition to electricity production, the IPPs also produce steam, which is sold to industrial and commercial users. The IPPs can produce a total of 272 mW of electricity per hour.

Recycling. We provide recycling services in the United States and Canada through our Recycle America(R), Recycle Canada(R) and other complementary programs. Recycling involves the removal of reusable materials from the waste stream for processing and resale or other disposition for use in various applications. Our commercial and industrial operations include collection, data destruction, shredding, automated sorting and construction and demolition processing. We use state-of-the-art technology for sorting and processing glass to remove contaminants and color separate the glass, which increases material recovery and delivers higher quality recovered materials to manufacturers. We also provide complete marketing programs for processing, inventory and sale of recovered plastic and rubber. Our recycling operations also include the recovery of electronic scrap, instituting programs for the collection and recycling of electronic materials.

As part of our residential solid waste collection services, we also engage in curbside collection of recyclable materials from residences in the United States and Canada. Curbside recycling services generally involve the collection of recyclable paper, glass, plastic and metal waste materials, which may be separated by residents into different waste containers or disposed of together, all as recyclable materials. Recyclable materials are deposited by one of our collection trucks, or by residents themselves, at a local materials recovery

facility ("MRF") for weighing, processing and marketing. We operate 146 MRFs, where paper, glass, metals, plastics and compost are recovered for resale, and 18 secondary processing facilities, where materials received from MRFs are processed into raw products used in the manufacturing of consumer goods. Our recycling operations include the marketing and reselling of recyclable materials on behalf of our own facilities as well as for third parties.

Fees for recycling services are determined by such considerations as market factors, frequency of collection, type and volume or weight of the recyclable material, degree of processing required and the market value of the recovered material.

As part of our recycling operations, we also have a commodities trading operation that started in the fourth quarter of 2001. The primary purpose of our trading operation is to hedge our exposure to price fluctuations on sales of waste paper products from our MRFs. We also enter into derivatives for trading purposes with the objective of generating profits from exposure to changes in the market price of waste paper and other fiber products. All hedging and trading transactions are subject to our risk management policy which limits the amount of total net exposure during stated periods. See Note 10 to the consolidated financial statements for further discussion.

In January 2003, we announced the formation of a new recycling entity, Recycle America Alliance, LLC ("RAA"). Our goal is to optimize the capacity and improve the profitability of our recycling line of business by combining assets and operations with other key domestic recycling processors and marketers. RAA is a majority owned and consolidated subsidiary. See Recent Developments for more information.

Other Services. Landfill gas is produced through the natural breakdown of waste deposited in a landfill. Landfill gas is a readily available, renewable energy source that can be gathered and used directly as medium British thermal unit ("Btu") gas for industrial use or sold to gas-to-energy plants to fuel engine generators that, in turn, generate electricity. We actively pursue landfill gas-to-energy projects and are currently supplying methane gas at 72 of our solid waste landfills. For 44 of these landfills, the processed gas is delivered to engine generators to produce electricity. The generated electricity is then sold under renewable energy sales contracts, usually to public utilities, municipal utilities, or power cooperatives, often under terms or conditions which are subject to approval by regulatory authorities. For 26 landfills, the gas is delivered via pipeline to industrial customers as a direct substitute for fossil fuels in industrial processes such as steam boilers, cement kilns and utility plants. At the remaining two landfills, the gas is further processed to pipeline-quality natural gas, and sold to natural gas suppliers.

In addition, as part of our other operations, we rent and service portable restroom facilities to municipalities and commercial customers under the name Port-o-let(R), and provide street and parking lot sweeping services. We also provide in-plant services, in which we outsource our employees to provide full service waste management to customers at their plants. Our vertically integrated waste management operations allow us to provide these customers with full management of their waste, including choosing the right sized containers, finding recycling opportunities, minimizing their waste, and transporting and disposing of their waste.

COMPETITION

The solid waste industry is very competitive. Competition comes from a number of publicly-held companies, locally-owned private solid waste services companies, and large commercial and industrial companies handling their own waste collection or disposal operations. We also have competition from municipalities and other regional government authorities with respect to residential and commercial solid waste collection and solid waste landfills. The municipalities and other regional governmental authorities can sometimes offer lower direct charges to the customer for the same service by subsidizing the cost of services through the use of tax revenues and tax-exempt financing.

Operating costs, disposal costs and collection fees vary widely throughout the geographic areas in which we operate. The prices that we charge are determined locally, and typically vary by the volume, type of waste collected, treatment requirements, risks involved in the handling or disposing of waste, frequency of

collections, distance to final disposal sites, labor costs and amount and type of equipment furnished to the customer. We face intense competition for both quality of service and pricing considerations. From time to time, competitors may reduce the price of their services and accept lower profit margins in an effort to expand or maintain market share or to successfully obtain competitively bid contracts.

EMPLOYEES

At December 31, 2002, we had approximately 53,000 full-time employees, of which approximately 9,000 were employed in administrative and sales positions and the balance in operations. Approximately 14,800 of our employees are covered by collective bargaining agreements. We have not experienced a significant work stoppage, and management considers its employee relations to be good.

FINANCIAL ASSURANCE AND INSURANCE OBLIGATIONS

Financial assurance is generally a requirement for obtaining municipal and governmental waste management contracts. It is also a requirement for obtaining or retaining disposal site or transfer station operating permits. Municipal and governmental waste management contracts typically require performance bonds or bank letters of credit to secure performance. We are also required to provide financial assurance for the closure and post-closure obligations with respect to our landfills.

We establish financial assurance in different ways, depending on the jurisdiction, including escrow-type accounts funded by revenues during the operational life of a facility, letters of credit from third parties, surety bonds, trust agreements and traditional insurance. We also use insurance policies issued by a wholly-owned insurance subsidiary, National Guaranty Insurance Company of Vermont ("NGIC"), the sole business of which is to issue policies to us in order to secure such obligations. NGIC is authorized to write up to \$989 million in insurance policies or surety bonds for our closure and post-closure requirements. In those instances where the use of captive insurance is not allowable, we have available alternative bonding mechanisms.

We carry a broad range of insurance coverages, including general liability, automobile liability, real and personal property, workers' compensation, directors' and officers' liability, pollution legal liability, and other coverages we believe are customary to the industry. Except as discussed in Notes 8 and 20 to the consolidated financial statements, we do not expect the impact of any known casualty, property, environmental insurance or other contingency to be material to our financial condition, results of operations or cash flows.

As of December 31, 2002, we had obtained letters of credit of approximately \$1.75 billion (approximately \$1.63 billion of which are issued under our revolving credit facilities), surety bonds of approximately \$2.55 billion and insurance policies of approximately \$817 million (including \$785 million written by NGIC), funded trust agreements of approximately \$96 million, and written financial guarantees on behalf of our subsidiaries of approximately \$141 million to municipalities, customers and regulatory authorities supporting tax-exempt bonds, performance of landfill closure and post-closure requirements, insurance contracts, municipal contracts and financial guarantee obligations.

Through December 31, 2002, we have not experienced any unmanageable difficulty in obtaining insurance, performance bonds or letters of credit for our current requirements. However, in an ongoing effort to mitigate the risks of future cost increases and reductions in available capacity, we are continually evaluating various options to access cost-effective sources of financial assurance.

REGULATION

Our business is subject to extensive and evolving federal, state, provincial and local environmental, health, safety, and transportation laws and regulations. These laws and regulations are administered by the EPA and various other federal, state and local environmental, zoning, transportation, land use, health, and safety agencies in the United States and various agencies in Canada. Many of these agencies regularly examine our operations to monitor compliance with these laws and regulations and have the power to enforce compliance, obtain injunctions or impose civil or criminal penalties in case of violations.

Because the major component of our business is the collection and disposal of solid waste in an environmentally sound manner, a significant amount of our capital expenditures is related, either directly or indirectly, to environmental protection measures, including compliance with federal, state and local provisions that have been enacted or adopted regulating the discharge of materials into the environment. There are costs associated with siting, design, operations, monitoring, site maintenance, corrective actions, financial assurance, and facility closure and post-closure obligations. In connection with our acquisition, development or expansion of a disposal facility or transfer station, we must often spend considerable time, effort and money to obtain or maintain necessary required permits and approvals. There cannot be any assurances that we will be able to obtain or maintain necessary governmental approvals. Once obtained, operating permits are subject to modification and revocation by the issuing agency. Compliance with these and any future regulatory requirements could require us to make significant capital and operating expenditures. However, most of these expenditures are made in the normal course of business and do not place us at any competitive disadvantage.

The primary United States federal statutes affecting our business are summarized below:

- RCRA regulates the handling, transportation and disposal of hazardous and non-hazardous wastes and delegates authority to states to develop programs to ensure the safe disposal of solid wastes. In 1991, the EPA issued its final regulations under Subtitle D of RCRA, which set forth minimum federal performance and design criteria for solid waste landfills. These regulations must be implemented by the states, although states can impose requirements that are more stringent than the Subtitle D standards. We incur costs in complying with these standards in the ordinary course of our operations. However, all of our planned landfill developments and expansions will be engineered to meet or exceed applicable Subtitle D requirements and we do not believe that such costs would have a material adverse effect on our operations.
- The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, which is also known as Superfund ("CERCLA"), provides for federal authority to respond directly to releases or threatened releases of hazardous substances into the environment. CERCLA's primary means for avoiding such releases is to impose liability for cleanup of disposal sites on current owners and operators, the owners and operators at the time of disposal as well as the generators of the waste and the transporters who select the disposal site. Liability under CERCLA is not dependent on the intentional disposal of hazardous wastes; it can be based upon the release or threatened release even as a result of lawful, unintentional and non-negligent action, of any one of the more than 700 "hazardous substances" listed by the EPA, even in very small quantities.
- The Federal Water Pollution Control Act of 1972 (the "Clean Water Act"), establishes rules for regulating the discharge of pollutants into streams, rivers, groundwater, or other surface waters from a variety of sources, including solid waste disposal sites. If run-off from our operations may be discharged into surface waters, the Clean Water Act requires us to apply for and obtain discharge permits, conduct sampling and monitoring, and, under certain circumstances, reduce the quantity of pollutants in those discharges. In 1990, the EPA issued additional rules under the Clean Water Act, which establish standards for management of storm water runoff from landfills and which require landfills to obtain storm water discharge permits. In addition, if a landfill or a transfer station discharges wastewater through a sewage system to a publicly-owned treatment works, the facility must comply with discharge limits imposed by the treatment works. Also, if development of a landfill may alter or affect "wetlands," a permit may have to be obtained before such development could commence, affecting the construction or expansion of many landfill sites. The Clean Water Act provides for civil, criminal and administrative penalties for violations of its provisions.
- The Clean Air Act of 1970, as amended (the "Clean Air Act"), provides for increased federal, state and local regulation of the emission of air pollutants. The EPA has applied the Clean Air Act to certain of our operations, including solid waste landfills and waste collection vehicles. Additionally, in 1996 the EPA issued new source performance standards for new landfills and emission guidelines for existing landfills to control emissions of landfill gases. The regulations impose limits on air emissions from solid waste landfills, subject most of our solid waste landfills to certain permitting requirements and, in some

instances, require installation of methane gas recovery systems to reduce emissions to allowable limits. We currently are supplying methane gas to landfill gas-to-energy projects at 72 of our solid waste landfills. We do not believe that continued costs of compliance with Clean Air Act permitting and emission control requirements will have a material adverse effect on us.

- The Occupational Safety and Health Act of 1970, as amended ("OSHA"), establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated by the Occupational Safety and Health Administration, and various record keeping, disclosures and procedural requirements. Various standards for notices of hazards, safety in excavation and demolition work, and the handling of asbestos, may apply to our operations.

There are also various state and local regulations that affect our operations. Generally, states have their own laws and regulations. Sometimes states' regulations are more strict than comparable federal laws and regulations. Additionally, our collection and landfill operations could be affected by the trend toward requiring the development of waste reduction and recycling programs. Legislative and regulatory measures to either require or encourage waste reduction at the source and waste recycling have also been considered by the United States Congress and the EPA.

Various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid waste generated outside the state. While laws that overtly discriminate against out-of-state waste have been found to be unconstitutional, some laws that are less overtly discriminatory have been upheld in court. Additionally, certain state and local governments have enacted "flow control" regulations, which attempt to require that all waste generated within the state or local jurisdiction be deposited at specific sites. In 1994, the United States Supreme Court ruled that a flow control ordinance was unconstitutional. However, other courts have refused to apply the Supreme Court precedent in various circumstances. In addition, from time to time, the United States Congress has considered legislation authorizing states to adopt regulations, restrictions, or taxes on the importation of out-of-state or out-of-jurisdiction waste. These congressional efforts have to date been unsuccessful. The United States Congress' adoption of legislation allowing restrictions on interstate transportation of out-of-state or out-of-jurisdiction waste or certain types of flow control, the adoption of legislation affecting interstate transportation of waste at the state level, or the courts' interpretation or validation of flow control legislation could adversely affect our solid waste management services.

Many states and local jurisdictions have enacted "fitness" laws that allow the agencies that have jurisdiction over waste services contracts or permits to deny or revoke these contracts or permits based on the applicant or permit holder's compliance history. Some states and local jurisdictions go further and consider the compliance history of the parent, subsidiaries or affiliated companies, in addition to the applicant or permit holder. These laws authorize the agencies to make determinations of an applicant or permit holder's fitness to be awarded a contract to operate and to deny or revoke a contract or permit because of unfitness unless there is a showing that the applicant or permit holder has been rehabilitated through the adoption of various operating policies and procedures put in place to assure future compliance with applicable laws and regulations.

FACTORS INFLUENCING FUTURE RESULTS AND ACCURACY OF FORWARD-LOOKING STATEMENTS

When we make statements containing projections about our accounting and finances, plans and objectives for the future, future economic performance, or when we make statements containing any other projections or estimates about our assumptions relating to these types of statements, we are making forward-looking statements. These statements usually relate to future events and anticipated revenues, earnings or other aspects of our operations or operating results. We make these statements in an effort to keep stockholders and the public informed about our business and have based them on our current expectations about future events. You should view such statements with caution. These statements are not guarantees of future performance or events. All phases of our business are subject to uncertainties, risks and other influences, many of which we have no control over. 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 statements as a result of future events or developments.

Outlined below are some of the risks that we face and that could affect our business and financial statements for 2003 and beyond. However, they are not the only risks that we face. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business.

WE COULD BE LIABLE FOR ENVIRONMENTAL DAMAGES RESULTING FROM OUR OPERATIONS

We could be liable if our operations cause environmental damage to our properties or to that of nearby landowners, particularly as a result of the contamination of drinking water sources or soil. Under current law, we could even be held liable for damage caused by conditions that existed before we acquired the assets or operations involved. Also, we could be liable if we arrange for the transportation, disposal or treatment of hazardous substances that cause environmental contamination, or if a predecessor owner made such arrangements and under applicable law we are treated as a successor to the prior owner. Any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows. In the ordinary course of our business, we have in the past, and may in the future, become involved in a variety of legal and administrative proceedings relating to land use and environmental laws and regulations. These include proceedings in which:

- agencies of federal, state, local or foreign governments seek to impose liability on us under applicable statutes, sometimes involving civil or criminal penalties for violations, or to revoke or deny renewal of a permit we need; and
- citizen groups, adjacent landowners or governmental agencies oppose the issuance of a permit or approval we need, allege violations of the permits under which we operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage.

The adverse outcome of one or more of these proceedings could result in, among other things, material increases in our liabilities.

From time to time, we have received citations or notices from governmental authorities that our operations are not in compliance with our permits or certain applicable environmental or land use laws and regulations. In the future we may receive additional citations or notices. We generally seek to work with the authorities to resolve the issues raised by such citations or notices. If we are not successful in such resolutions, we may incur fines, penalties or other sanctions that could result in material unanticipated costs or liabilities.

The amount of insurance required to be maintained for environmental liability is governed by statutory requirements. We believe that the cost for such insurance is high relative to the coverage it would provide, and therefore, our coverages are generally maintained at the minimum statutorily required levels. We face the risk of incurring liabilities for environmental damage if our insurance coverage is ultimately inadequate to cover those damages.

In addition, to fulfill our financial assurance obligations with respect to environmental closure and post-closure liabilities, we generally obtain letters of credit or surety bonds, or rely on insurance, including captive insurance. We currently have in place all necessary financial assurance instruments, and we do not anticipate any difficulties obtaining financial assurance instruments in the future, although the cost of such assurance instruments has increased and may continue to increase. However, in the event we are unable to obtain sufficient surety bonding, letters of credit or third-party insurance coverage at reasonable cost, or one or more states cease to view captive insurance as adequate coverage, we would need to rely on other forms of financial assurance. These types of financial assurance could be more expensive to obtain, which could negatively impact our liquidity and capital resources and our ability to meet our obligations as they become due.

GOVERNMENTAL REGULATIONS OR LEVIES MAY RESTRICT OUR OPERATIONS OR INCREASE OUR COSTS OF OPERATIONS

Stringent government regulations at the federal, state, provincial, and local level in the United States and Canada have a substantial impact on our business. A large number of complex laws, rules, orders and interpretations govern environmental protection, health, safety, land use, zoning, transportation and related matters. Among other things, they may restrict our operations and adversely affect our financial condition, results of operations and cash flows by imposing conditions such as:

- limitations on the siting and construction of new waste disposal, transfer or processing facilities or the expansion of existing facilities;
- limitations, regulations or levies on collection and disposal prices, rates and volumes;
- limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste; or
- mandates regarding the disposal of solid waste.

Regulations also affect the siting, design and closure of landfills and could require us to undertake investigatory or remedial activities, curtail operations or close a landfill temporarily or permanently. Future changes in these regulations may require us to modify, supplement or replace equipment or facilities. The costs of complying with these regulations could be substantial.

In order to develop, expand or operate a landfill or other waste management facility, we must have various facility permits and other governmental approvals, including those relating to zoning, environmental protection and land use. The permits and approvals are often difficult, time consuming and costly to obtain and could contain conditions that limit operations.

THE POSSIBILITY OF PENDING ACQUISITIONS, DISPOSAL SITE DEVELOPMENTS OR EXPANSION PROJECTS NOT BEING COMPLETED OR CERTAIN OTHER EVENTS COULD RESULT IN A MATERIAL CHARGE AGAINST OUR EARNINGS

In accordance with generally accepted accounting principles, we capitalize certain expenditures and advances relating to acquisitions, pending acquisitions, and disposal site development and expansion projects. We expense indirect acquisition costs, such as executive salaries, general corporate overhead, public affairs and other corporate services, as incurred. Our policy is to charge against earnings any unamortized capitalized expenditures and advances relating to any facility or operation that is permanently shut down or determined to be impaired, any pending acquisition that is not consummated and any disposal site development or expansion project that is not completed or determined to be impaired. The charge against earnings is reduced by any portion of the capitalized expenditure and advances that we estimate will be recoverable, through sale or otherwise. In future periods, we may be required to incur charges against earnings in accordance with this policy, or due to other events that cause impairments. Depending on the magnitude, any such charges could have a material adverse effect on our results of operations and possibly our financial covenants, which could negatively affect our liquidity.

THE DEVELOPMENT AND ACCEPTANCE OF ALTERNATIVES TO LANDFILL DISPOSAL AND WASTE-TO-ENERGY FACILITIES COULD REDUCE OUR ABILITY TO OPERATE AT FULL CAPACITY

Our customers are increasingly using alternatives to landfill disposal, such as recycling and composting. In addition, some state and local governments mandate recycling and waste reduction at the source and prohibit the disposal of certain types of wastes, such as yard wastes, at landfills or waste-to-energy facilities. Although such mandates are a useful tool to protect our environment, these developments reduce the volume of waste going to landfills and waste-to-energy facilities in certain areas, which may affect our ability to operate our landfills and waste-to-energy facilities at full capacity, as well as the prices that we can charge for landfill disposal and waste-to-energy services.

OUR BUSINESS IS SEASONAL IN NATURE AND OUR REVENUES AND RESULTS VARY FROM QUARTER-TO-QUARTER

Our operating revenues are usually lower in the winter months, primarily because the volume of waste relating to construction and demolition activities usually increases in the spring and summer months, and the

volume of industrial and residential waste in certain regions where we operate usually decreases during the winter months. Our first and fourth quarter results of operations typically are adversely affected by this seasonality. In addition, particularly harsh weather conditions may result in the temporary suspension of certain of our operations.

FLUCTUATIONS IN COMMODITY PRICES AFFECT OUR OPERATING REVENUES

Our recycling operations process for sale certain recyclable materials, including fibers, aluminum and glass, all of which are subject to significant price fluctuations. The majority of the recyclables that we process for sale are fibers, including old corrugated cardboard, or ("OCC"), and old newsprint, or ("ONP"). We enter into financial swaps in an effort to mitigate some of the variability in cash flows from the sales of fibers at floating prices. In the past three years, the year-over-year changes in the quarterly average market prices for OCC ranged from a decrease of as much as 63% to an increase of as much as 109%. The same comparisons for ONP have ranged from a decrease of as much as 46% to an increase of as much as 47%. These fluctuations can affect future operating income and cash flows; for example, our operating revenues for the year ended December 31, 2002 were approximately \$69 million more than the corresponding prior period due to such fluctuations.

Additionally, there may be significant price fluctuations in the price of methane gas, electricity and other energy related products that are marketed and sold by our landfill gas recovery, waste-to-energy and independent power production plants operations. Our landfill gas recovery and waste-to-energy operations generally enter into long-term sales agreements. Therefore, market fluctuations do not have a significant effect on these operations in the short-term. However, revenues from our IPPs can be effected by price fluctuations. In the past two years, the year-over-year changes in the average quarterly electricity prices have ranged from increases of as much as 78% to decreases of as much as 52%. For the year ended December 31, 2002, our revenues decreased, when compared to the prior year, by \$34 million due to lower electricity prices.

WE FACE UNCERTAINTIES RELATING TO PENDING LITIGATION AND INVESTIGATIONS

On three different occasions during July and August 1999, we lowered our expected earnings per share for the three months ended June 30, 1999. More than 30 lawsuits that claim to be based on our 1999 announcements have been filed against us and some of our current and former officers and directors. These lawsuits, which have been consolidated into one action, assert various claims alleging we violated the anti-fraud provisions of the federal securities laws by making false or misleading statements or by not making statements that were necessary in order to not mislead investors. The plaintiffs also claim that certain of our current and former officers and directors sold their common stock during times when they knew the price of our common stock was artificially inflated by the alleged misstatements and omissions.

On November 7, 2001, we announced that we had reached a settlement agreement with the plaintiffs in this case, resolving all claims against us as well as claims against our current and former officers and directors. The agreement provides for a payment of \$457 million to members of the class and for us to consent to the certification of a class for the settlement of purchasers or acquirers of our securities from June 11, 1998 through November 9, 1999. Additionally, as part of the settlement agreement, at our 2002 annual meeting of stockholders, we proposed and our stockholders approved an amendment to our certificate of incorporation so that all of our directors are elected annually. A hearing was held April 29, 2002 at which the settlement was approved. The settlement approval is still subject to any appeals that may be filed within thirty days of the approval becoming final. There is currently a motion to vacate pending before the court, and the appeal period will begin to run once that motion has been decided. If the motion to vacate is granted, or the plaintiff files an appeal, we may have to defend ourself in further litigation.

Other lawsuits relating to the facts described above, and the February 1998 restatements by WM Holdings of its prior-period financial statements, including purported class actions, have been filed against WM Holdings and us. These include lawsuits brought by individuals who purchased our stock or stock of WM Holdings, sold businesses or assets to us or WM Holdings, or held their stock allegedly in reliance on

statements we made. For a more detailed discussion of our current litigation, see Note 20 to the consolidated financial statements.

We and some of our subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of our business. The timing of the final resolutions to these matters is uncertain. Additionally, the possible outcomes or resolutions to these matters could include judgments against us or settlements, either of which could require substantial payments by us, adversely affecting our liquidity.

INTENSE COMPETITION COULD REDUCE OUR PROFITABILITY

We encounter intense competition from governmental, quasi-governmental and private sources in all aspects of our operations. In North America, the industry consists of large national waste management companies, and local and regional companies of varying sizes and financial resources. We compete with these companies as well as with counties and municipalities that maintain their own waste collection and disposal operations. These counties and municipalities may have financial competitive advantages because tax revenues and tax-exempt financing are available to them. Also, such governmental units may attempt to impose flow control or other restrictions that would give them a competitive advantage. In addition, competitors may reduce their prices to expand sales volume or to win competitively bid municipal contracts.

EFFORTS BY LABOR UNIONS TO ORGANIZE OUR EMPLOYEES COULD DIVERT MANAGEMENT ATTENTION AND INCREASE OUR OPERATING EXPENSES

Labor unions constantly make attempts to organize our employees, and these efforts will likely continue in the future. Certain groups of our employees have chosen to be represented by unions, and we have negotiated collective bargaining agreements with some of the groups. Additional groups of employees may seek union representation in the future, and the negotiation of collective bargaining agreements could divert management attention and result in increased operating expenses and lower net income. If we are unable to negotiate acceptable collective bargaining agreements, we might have to wait through "cooling off" periods, which are often followed by union-initiated work stoppages, including strikes. Depending on the type and duration of any labor disruptions, our operating expenses could increase significantly, which could adversely affect our financial condition, results of operations and cash flows.

FLUCTUATIONS IN FUEL COSTS COULD AFFECT OUR OPERATING EXPENSES AND RESULTS

The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries, regional production patterns and environmental concerns. Fuel is needed to run our collection and transfer trucks, and any price escalations or reductions in the supply could increase our operating expenses and have a negative impact on our consolidated financial condition, results of operations and cash flows. We have implemented a fuel surcharge to partially offset increased fuel costs. However, we are not always able to pass through all of the increased fuel costs due to the terms of certain customers' contracts.

WE FACE RISKS RELATING TO GENERAL ECONOMIC CONDITIONS

We face risks related to general economic and market conditions, including the potential impact of the status of the economy and interest rate fluctuations. We also face risks related to other adverse external economic conditions, such as the ability of our insurers to timely meet their commitments and the effect that significant claims or litigation against insurance companies may have on such ability. Any negative general economic conditions could materially adversely affect our financial condition, results of operations and cash flows.

WE MAY NEED ADDITIONAL CAPITAL

We currently expect to meet our anticipated cash needs for capital expenditures, acquisitions and other cash expenditures with our cash flows from operations and, to the extent necessary, additional financings.

However, our Board of Directors has approved a stock repurchase program pursuant to which we may, at management's discretion, repurchase up to \$1 billion of our common stock in both 2003 and 2004. We also expect to pay \$230 to \$240 million (net of a tax benefit, insurance and related settlement costs) in settlement of the class action lawsuit during 2003. If our cash flows from operations are less than is currently expected, or our capital expenditures or acquisitions increase, we may elect to incur more indebtedness. However, there can be no assurances that we will be able to obtain additional financings on acceptable terms. In these circumstances, we would likely use our revolving credit facilities to meet our cash needs.

Our credit facilities require us to comply with certain financial ratios. However, if our cash flows are less than expected, our capital requirements are more than expected or we incur additional indebtedness, we may not be in compliance with the ratios. This would result in a default under our credit facilities. If we were unable to obtain waivers or amendments to the credit facilities, the lenders could choose to declare all outstanding borrowings immediately due and payable, which we may not be able to pay in full. The default under or unavailability of our credit agreements could have a material adverse effect on our ability to meet our borrowing and bonding needs.

WE MAY ENCOUNTER DIFFICULTIES DEPLOYING OUR ENTERPRISE SOFTWARE

Upon implementation of a new revenue management system, currently in the test phase, we may experience problems that could adversely affect, or even temporarily disrupt, all or a portion of our operations until resolved.

ITEM 2. PROPERTIES

Our principal executive offices are in Houston, Texas, where we lease approximately 400,000 square feet under leasing arrangements expiring at various times through 2010. We also have U.S. field-based administrative offices in Arizona, Illinois, Pennsylvania, New Hampshire and Georgia and a field-based administrative office in Ontario, Canada.

Our principal property and equipment consist of land (primarily landfills and other disposal facilities, transfer stations and bases for collection operations), buildings, and vehicles and equipment. We own or lease real property in most locations where we have operations. We have operations in each of the fifty states, other than Montana and Wyoming. We also have operations in the District of Columbia, Puerto Rico and throughout Canada.

At December 31, 2002, of our 293 active landfills, 246 were either owned or operated through lease agreements. These sites occupy approximately 131,000 acres of land, including approximately 33,000 permitted acres and approximately 5,900 acres we consider to be probable expansion acreage for landfill use. Our remaining 47 landfills were operated through contractual agreements, primarily with municipalities. At December 31, 2002, we operated 346 transfer stations, 146 MRFs and 18 secondary processing facilities. We also owned, or operated through agreements, 16 waste-to-energy facilities and eight IPPs as of December 31, 2002.

We believe that our vehicles, equipment, and operating properties are adequately maintained and adequate for our current operations. However, we expect to continue to make investments in additional equipment and property for expansion, for replacement of assets, and in connection with future acquisitions. For more information, see the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report.

ITEM 3. LEGAL PROCEEDINGS

Information regarding our legal proceedings can be found under the "Litigation" section of Note 20 in the consolidated financial statements included in this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of our stockholders during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "WMI." The following table sets forth the range of the high and low per share sales prices at market close for our common stock as reported on the NYSE.

	HIGH	LOW	-----	-----	2001	First
Quarter.....						
	\$28.63	\$22.52			Second	
Quarter.....						
	30.95	22.51			Third	
Quarter.....						
	31.85	24.79			Fourth	
Quarter.....						
	32.50	24.09			2002	First
Quarter.....						
	\$31.16	\$23.34			Second	
Quarter.....						
	28.73	25.50			Third	
Quarter.....						
	26.17	21.89			Fourth	
Quarter.....						
	25.08	20.87			2003	First Quarter (through February
	18, 2003)				\$24.11	\$21.44

On February 18, 2003, the closing sale price as reported on the NYSE was \$22.10 per share. The number of holders of record of our common stock at February 18, 2003, was 23,197.

We declared and paid cash dividends of \$0.01 per share, or approximately \$6 million, during each of 2001 and 2002. See Note 11 to the consolidated financial statements for a discussion of restrictions that limit our ability to pay dividends.

In February 2002, we announced that our Board of Directors had approved a stock repurchase program for up to \$1 billion in annual repurchases for each of 2002, 2003 and 2004, to be implemented at management's discretion. The purchases may be made in either open market or privately negotiated transactions. During 2002, we repurchased approximately 38 million shares for approximately \$1 billion. See Note 11 to the consolidated financial statements for additional discussion.

The following is a summary of all of our equity compensation plans, including plans that were assumed through acquisitions and individual arrangements that provide for the issuance of equity securities as compensation, as of December 31, 2002. See Note 12 to the consolidated financial statements for additional discussion.

NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION NUMBER OF SECURITIES TO BE WEIGHTED-AVERAGE EXERCISE PLANS (EXCLUDING SECURITIES TO ISSUED UPON EXERCISE OF PRICE OF OUTSTANDING BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, OPTIONS, WARRANTS AND OUTSTANDING OPTIONS, WARRANTS WARRANTS AND RIGHTS RIGHTS AND RIGHTS) ----- ----- ----- ----- ----- Equity compensation plans approved by security holders..... 39,042,062 \$28.00 18,562,865 Equity compensation plans not approved by security holders(a).... 2,497,964 \$17.96 269,487 Total(b)..... 41,540,026 \$27.40 18,832,352

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- (a) Includes the Company's 2000 Broad-Based Employee Plan described in Note 12 to the consolidated financial statements. Also includes 372,000 shares issuable upon exercise of outstanding, fully vested warrants issued between 1994 and 1997 as compensation for goods or services, with exercise prices ranging from \$10.00 to \$42.25 and expiring through 2007.
 - (b) The total securities to be issued upon exercise of outstanding options, warrants and rights does not agree to common stock options and warrants outstanding as detailed in Note 12 to the consolidated financial statements. The difference is attributable to warrants outstanding at December 31, 2002 that were issued as consideration for business acquisitions. As these warrants were not issued as compensation, they have been excluded from the table above.

ITEM 6. SELECTED FINANCIAL DATA

The information below was derived from the audited consolidated financial statements included in this report and in reports we have previously filed with the SEC. This information should be read together with those consolidated financial statements and the notes to the consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future.

YEARS ENDED DECEMBER 31, -----	-----	2002(A)	2001(A)	2000(A)	-----
1999(B)	1998(C)	-----	-----	-----	-----
----- (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
STATEMENT OF OPERATIONS DATA: Operating					
revenues.....					
\$11,142	\$11,322	\$12,492	\$13,127	\$12,626	----- --
----- Costs and expenses:					
Operating (exclusive of depreciation and					
amortization shown					
below).....					
6,743	6,666	7,538	8,269	7,283	Selling, general and
administrative..... 1,529 1,622 1,738					
1,920 1,333 Depreciation and					
amortization..... 1,222 1,371					
1,429 1,614 1,499 Merger, acquisition and					
restructuring related					
costs.....					
38	--	--	45	1,807	Asset impairments and unusual
items..... (34) 380 749 739 864 -----					
----- 9,498 10,039					
11,454	12,587	12,786	-----	-----	-----
----- Income (loss) from					
operations..... 1,644 1,283					
1,038	540	(160)	-----	-----	-----
----- Other income (expense): Interest					
expense..... (462)					
(541) (748) (770) (682) Interest					
income..... 21 37					
31 38 27 Minority					
interest..... (7)					
(5) (23) (24) (24) Other income,					
net..... 51 13 23					
53	139	-----	-----	-----	-----
(397)	(496)	(717)	(703)	(540)	-----
----- Income (loss) from operations					
before income taxes..... 1,247 787 321 (163)					
(700) Provision for income					
taxes..... 424 284 418 232					
67	-----	-----	-----	-----	Income
(loss) from operations.....					
823 503 (97) (395) (767) Extraordinary					
item..... (3) (2)					
-- (3) (4) Accounting					
changes..... 2 2 -					

Net income					
(loss)..... \$ 822					
\$ 503 \$ (97) \$ (398) \$ (771) =====					
===== Basic earnings (loss) per					
common share: Income (loss) from					
operations..... \$ 1.34 \$ 0.80 \$					
(0.16) \$ (0.64) \$ (1.31) Extraordinary					
item..... -- --					
(0.01) (0.01) Accounting					
changes..... -- -- -					

Net income					
(loss)..... \$ 1.34					
\$ 0.80 \$ (0.16) \$ (0.65) \$ (1.32) =====					
===== Diluted earnings (loss)					
per common share: Income (loss) from					
operations..... \$ 1.33 \$ 0.80 \$					
(0.16) \$ (0.64) \$ (1.31) Extraordinary					
item..... -- --					
(0.01) (0.01) Accounting					
changes..... -- -- -					

Net income					

(loss).....										\$ 1.33
\$ 0.80	\$ (0.16)	\$ (0.65)	\$ (1.32)	=====	=====					
===== Cash dividends per common										
share.....						\$ 0.01	\$ 0.01	\$ 0.01		
	\$ 0.01	\$ 0.16	=====	=====	=====	=====	=====	=====		
===== BALANCE SHEET DATA (AT END OF PERIOD):										
Working capital										
(deficit).....										\$ (473) \$
(597) \$	(582) \$	\$(1,269)	\$ (412)	Goodwill and other						
intangible assets, net.....						5,184	5,121			
						5,193	5,356	6,250	Total	
assets.....										
19,631	19,490	18,565	22,681	22,882	Debt, including					
					current portion.....					8,293
						8,224	8,485	11,498	11,732	Stockholders'
					equity.....					5,308
						5,392	4,801	4,402	4,372	

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- (a) For more information regarding this financial data, see Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this report.
 - (b) During 1999, we initiated a comprehensive internal review of our accounting records, systems, processes and controls at the direction of our Board of Directors. We experienced significant difficulty in the integration and conversion of information and accounting systems subsequent to the WM Holdings Merger, which was accounted for as a pooling of interests. As a result of these systems and process issues, and other issues raised during the 1999 accounting review, we recorded \$1.2 billion in after-tax charges. These charges had a pervasive impact on the December 31, 1999 Statement of Operations. See our Annual Report on Form 10-K for the year ended December 31, 1999 for further discussion.
 - (c) In 1998, we recognized significant charges related to the costs associated with the WM Holdings Merger. Our plans to integrate WM Holdings after the merger included significant employee severance costs, restructuring costs, transaction costs and changes in certain employee benefit programs, as well as charges for businesses to be sold and assets to be abandoned. See our Annual Report on Form 10-K for the year ended December 31, 1998 for further discussion.

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

Below is a discussion of our operations for the three years ended December 31, 2002. This discussion may contain forward-looking statements that anticipate results based on management's plans that are subject to uncertainty. We discuss in more detail various factors that could cause actual results to differ from expectations in Item 1 of this report, under the section "Factors Influencing Future Results and Accuracy of Forward-Looking Statements." This discussion should be read in light of that disclosure and together with the consolidated financial statements and the notes to the consolidated financial statements.

Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make several estimates and assumptions that affect our assets and liabilities and revenues and expenses. We must make these estimates and assumptions because certain of the information that is used in the preparation of our financial statements is dependent on future events, cannot be calculated with a high degree of precision from available data or is simply not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. The most difficult, subjective and complex estimates and the assumptions that deal with the greatest amount of uncertainty are related to our accounting for landfills, environmental liabilities and asset impairments, as described below.

The discussion below details our accounting policies for landfills through December 31, 2002. As of January 1, 2003, our practice will change upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"). See Note 25 to the consolidated financial statements for additional information.

Accounting for Landfills -- We utilize the life cycle method of accounting for landfill costs and the units of consumption method to amortize landfill construction costs and record closure and post-closure obligations over the estimated remaining useful life of a landfill. Under this method we include future estimated construction costs, as well as costs incurred to date, in the amortization base. Additionally, we include probable expansion airspace that has yet to be permitted in the calculation of the total remaining useful life of the landfill. This accounting method requires us to make estimates and assumptions, as described below. Any changes in our estimates will impact our income from operations prospectively from the date the changes are made.

Landfill Costs -- We assess the total cost to develop each landfill site to its final capacity. This includes certain projected landfill costs that are uncertain because they are dependent on future events. The total cost to develop a site to its final capacity includes amounts previously expended and capitalized, net of accumulated airspace amortization, and projections of future purchase and development costs, landfill final capping costs, liner construction costs, operating construction costs, and capitalized interest costs.

While the precise amount of these future costs cannot be determined with certainty, we expect to incur \$7.3 billion during the remaining operating lives of the landfills. The future costs will be capitalized as incurred and expensed over the useful lives of the landfills as airspace is consumed.

Closure and Post-Closure Costs -- The costs for closure and post-closure obligations at landfills we own or operate are estimated based on our interpretations of current requirements and proposed or anticipated regulatory changes. The estimates for landfill final closure and post-closure costs also consider when the costs would actually be paid and factor in, where appropriate, inflation and discount rates. The possibility of changing legal and regulatory requirements and the forward-looking nature of these types of costs make any estimation or assumption uncertain.

While the precise amount of future closure and post-closure costs cannot be determined with certainty, we estimate that the aggregate cost of landfill closure and post-closure as of December 31, 2002 is approximately \$2.6 billion.

Available Airspace -- Our engineers determine the useful life at our landfills by estimating the available airspace. This is done by using surveys and other methods to calculate, based on height restrictions and other

factors, how much airspace is left to fill and how much waste can be disposed of at a landfill before it has reached its final capacity.

Expansion Airspace -- We also include currently unpermitted airspace in our estimate of available airspace in certain circumstances. First, to include airspace associated with an expansion effort, we must generally expect the expansion permit application to be submitted within one year, and the expansion permit to be received within five years. Second, we must believe the success of obtaining the expansion permit is probable, using the following criteria:

- Personnel are actively working to obtain land use and local and state approvals for an expansion of an existing landfill;
- At the time the expansion is added to the permitted site life, it is probable that the approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
- Either we or the respective landfill owners have a legal right to use or obtain land to be included in the expansion plan;
- There are no significant known technical, legal, community, business, or political restrictions or similar issues that could impair the success of such expansion;
- Financial analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact; and
- Airspace and related costs, including additional closure and post-closure costs, have been estimated based on conceptual design.

These criteria are initially evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. However, our policy provides that, based on the facts and circumstances of a specific landfill, if these criteria are not met, inclusion of unpermitted airspace may still be allowed. In these circumstances, inclusion must be approved through a landfill-specific process that includes approval of the Chief Financial Officer and a review by the Audit Committee of the Board of Directors on a quarterly basis. Of the 91 landfill sites with expansions at December 31, 2002, 26 landfills required the Chief Financial Officer to approve the inclusion of the unpermitted airspace. Approximately two-thirds of these landfills required approval by the Chief Financial Officer because of legal or community issues that could impede the expansion process, while the remaining were primarily due to permit application processes beyond the one-year limit, which in most cases were due to state-specific permitting procedures. When we include the expansion airspace in our calculations of available airspace, we also include the projected costs for development, final capping, and closure and post-closure of the expansion in the amortization basis of the landfill.

It is possible that any of our estimates or assumptions could ultimately turn out to be significantly different from actual results. In some cases we may be unsuccessful in obtaining an expansion permit or we may determine that an expansion permit that we previously thought was probable has become unlikely. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, or our belief that we will receive an expansion permit changes adversely in a significant manner, the costs of the landfill, including the costs incurred in the pursuit of the expansion, may be subject to impairment testing, as described below, and lower profitability may be experienced due to higher amortization rates, higher closure and post-closure rates, and higher expenses or asset impairments related to the removal of previously included expansion airspace.

After determining the costs at our landfills, including closure and post-closure costs, and the available and probable expansion airspace, we then determine the per ton rate that will be expensed. We look at factors such as the waste stream, geography and rate of compaction, among others, to determine the number of tons necessary to fill the available and probable expansion airspace. We then divide our costs by that number of tons, giving us the rate per ton to expense.

The average landfill airspace amortization cost per ton for the 293 landfills operating at December 31, 2002 was \$3.57 per ton as compared to \$3.70 for the 302 landfills at December 31, 2001. As of December 31, 2002 and 2001, the net book value recorded for capitalized landfill site costs was \$5.1 billion and \$5.0 billion, respectively.

The average landfill closure and post-closure expense, on a per ton basis, for the 293 landfills operating at December 31, 2002 was \$0.23 per ton as compared to \$0.24 for the 302 landfills at December 31, 2001. As of December 31, 2002 and 2001, we had recorded landfill closure and post-closure liabilities of \$655 million and \$625 million, respectively.

Environmental Remediation Liabilities -- Under current laws and regulations, we may have liability for environmental damage caused by our operations, or for damage caused by conditions that existed before we acquired a particular site. Remedial costs are all costs relating to the remedy of any identified situation that occurs by natural causes or human error not expected in the normal course of business. These costs include legal defense, potentially responsible party ("PRP") investigation, settlement, and consultant fees, as well as costs directly associated with site investigation and clean up, such as materials and incremental internal costs directly related to the remedy. We estimate costs required to remediate sites where liability is probable based on site-specific facts and circumstances. We routinely review and evaluate sites that require remediation, including sites listed on the EPA's National Priorities List ("NPL sites"). We consider whether we were an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years we were connected with the site. Next, we review the same information with respect to other named and unnamed PRPs. We then estimate the cost for the likely remedy, which is based on:

- Management's judgment and experience in remediating our own and unrelated parties' sites;
- Information available from regulatory agencies as to costs of remediation;
- The number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site; and
- The typical allocation of costs among PRPs.

These estimates are sometimes a range of reasonably possible outcomes. In those cases, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amounts that are the low ends of such ranges in accordance with SFAS No. 5, Accounting for Contingencies, ("SFAS No. 5") and its interpretations. Were we to use the high ends of such ranges, our potential liability would be approximately \$220 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of December 31, 2002. As used in this context, "reasonably possible" means we believe it is more than remote but less than likely. As of December 31, 2002 and 2001, we had recorded liabilities of \$343 million and \$321 million, respectively, for the present value of remediation costs for our sites.

Asset Impairments -- Our long-lived assets, including landfills and landfill expansions, are carried on our financial statements based on their cost less accumulated depreciation or amortization. However, accounting standards require us to write-down these assets if they become impaired. If significant events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset to its carrying value. Fair value is determined by either an actual third-party evaluation or an internally developed discounted projected cash flow analysis of the asset. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the fair value of an asset is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs.

Typical indicators that an asset may be impaired include:

- A significant decrease in the market price of an asset or asset group;
- A significant adverse change in the extent or manner in which an asset or asset group is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of an asset or asset group, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- Current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or
- A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If any of these or other indicators occur, we review the asset to determine whether there has been an impairment. Several of these indicators are beyond our control, and we cannot predict with any certainty whether or not they will occur. Additionally, estimating future cash flows requires significant judgment and our projections may vary from cash flows eventually realized. There are additional considerations for impairments of landfills and goodwill, as described below.

Landfills -- There are certain indicators listed above that require significant judgment and understanding of the waste industry when applied to landfill development or expansion projects. For example, a regulator may initially deny a landfill expansion permit application though the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace. Therefore, certain events could occur in the ordinary course of business and not necessarily be considered indicators of impairment due to the unique nature of the waste industry.

Goodwill -- We assess whether goodwill is impaired on an annual basis. Upon determining the existence of goodwill impairment, we measure that impairment based on the amount by which the book value of goodwill exceeds its implied fair value. The implied fair value of goodwill is determined by deducting the fair value of a reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if that reporting unit had just been acquired and the purchase price were being initially allocated. Additional impairment assessments may be performed on an interim basis if we encounter events or changes in circumstances, such as those listed above, that would indicate that, more likely than not, the book value of goodwill has been impaired.

RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the period to period change in dollars (in millions) and percentages for the various statement of operations line items.

PERIOD-TO-PERIOD CHANGE -----	YEARS ENDED	YEARS ENDED	YEARS ENDED
-----	DECEMBER 31,	DECEMBER 31,	DECEMBER 31,
-----	2002	2001	2000
-----	AND 2000	AND 2001	AND 2000
-----	-----	-----	-----
STATEMENT OF OPERATIONS: Operating			
revenues.....	\$(180)		
(1.6)% \$(1,170) (9.4)% -----			
Costs and expenses: Operating (exclusive of depreciation and amortization shown below).....	77 1.2 (872) (11.6)		
Selling, general and administrative.....	(93) (5.7) (116)		
(6.7) Depreciation and amortization.....	(149) (10.9)		
(58) (4.1)			
Restructuring.....			
38 -- -- -- Asset impairments and unusual items.....	(414) (108.9) (369) (49.3) -		
----- (541) (5.4) (1,415) (12.4) -----			
Income from operations.....	361 28.1		
245 23.6 ----- Other income (expense): Interest expense.....	79 14.6		
207 27.7 Interest and other income, net.....	22 44.0 (4) (7.4)		
Minority interest.....	(2)		
(40.0) 18 78.3 -----	99 20.0 221 30.8		
Income before income taxes.....	460 58.4 466		
145.2 Provision for income taxes.....	140 49.3 (134)		
(32.1) -----	Income (loss) before extraordinary item and cumulative effect of changes in accounting principle.....		
320 63.6% 600 618.6% Extraordinary item.....	(1) (2)		
Cumulative effect of changes in accounting principle.....			
-- 2 -----	Net income (loss).....	\$ 319 \$	
600 =====			

The following table presents, for the periods indicated, the percentage relationship that the various statement of operations line items bear to operating revenues:

YEARS ENDED DECEMBER 31, -----	2002						
2001 2000 -----							
							STATEMENT OF OPERATIONS:
							Operating
revenues.....							100.0%
100.0% 100.0% -----							Costs and expenses:
Operating (exclusive of depreciation and amortization shown below).....							
60.5 58.9 60.4							Selling, general and administrative.....
13.7 14.3 13.9							Depreciation and amortization.....
11.0 12.1 11.4							Restructuring.....
0.3 -- --							Asset impairments and unusual items.....
(0.3) 3.4 6.0 -----							Income from operations.....
85.2 88.7 91.7 -----							Other income (expense):
14.8							Interest expense.....
11.3 8.3 -----							(4.1)
							Interest and other income, net.....
0.6 0.4 0.4							Minority interest.....
(0.1) -							(0.2) -----
(3.6) (4.4) (5.8) -----							Income before income taxes.....
11.2 6.9 2.5							Provision for income taxes.....
3.8 2.5 3.3 -----							Income (loss) before extraordinary item and cumulative effect of changes in accounting principle.....
7.4 4.4 (0.8)							Extraordinary item.....
							Cumulative effect of changes in accounting principle.....
							Net income (loss).....
7.4%							4.4% (0.8)% =====

RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2002

OPERATING REVENUES

Our operating revenues in 2002 were \$11.1 billion, compared to \$11.3 billion in 2001 and \$12.5 billion in 2000. Our revenues decreased from 2000 to 2001 primarily because we sold our international operations, most of our non-solid waste businesses, and certain non-integrated NASW operations. As shown below, NASW is our principal operation, which is comprised of six operating groups within North America, along with our other NASW services. Our "Other" operations consisted of waste management services in international markets and non-solid waste services, all of which were divested as of March 31, 2002.

YEARS ENDED DECEMBER 31, -----	2002	2001	2000	-----	-----	(IN MILLIONS)
Canada.....	\$ 524	\$ 530	\$ 548			
Eastern.....	3,816	3,783	3,849			
Midwest.....	2,289	2,327	2,408			
Southern.....	3,016	2,999	3,010			
Western.....	2,480	2,541	2,552			
WTI.....	789	802	902	Other		
NASW.....					219	
		174	175			
Intercompany.....	(1,999)	(1,994)	(2,022)	-----	-----	Total
NASW.....				11,162	11,422	11,134
Other.....	8	160	1,070	-----	-----	Net Operating
Revenues.....				\$11,142	\$11,322	
	\$12,492	=====	=====	=====	=====	

Our NASW operating revenues generally come from fees charged for our collection, disposal, and transfer station services. Some of the fees we charge to our customers for collection services are billed in advance; a liability for future service is recorded when we bill the customer and operating revenues are recognized as services are actually provided. Revenues from our disposal operations consist of tipping fees charged to third parties based on the volume and type of waste being disposed of at our disposal facilities and are normally billed monthly or semi-monthly. Fees charged at transfer stations are based on the volume of waste deposited, taking into account our cost of loading, transporting, and disposing of the solid waste at a disposal site. Intercompany revenues between our operations have been eliminated in the consolidated financial statements.

The mix of NASW operating revenues from our different services is reflected in the table below (in millions).

YEARS ENDED DECEMBER 31, -----	2002	2001	2000	-----	-----
Collection.....	\$ 7,598	\$ 7,584	\$ 7,675		
Landfill.....	2,660	2,743	2,730		
Transfer.....	1,451	1,435	1,394	WTI (waste-to-energy and	
IPPs).....	789	802	902	Recycling	
and other.....	635	592			
	743				
Intercompany.....	(1,999)	(1,994)	(2,022)	-----	-----
NASW.....				\$11,162	\$11,422
	\$11,162	\$11,422	=====	=====	=====

The period to period change in NASW revenues is reflected in the table below (dollars in millions).

PERIOD TO PERIOD FOR 2002 AND 2001	PERIOD TO PERIOD 2001 AND 2000	CHANGE FOR -----	CHANGE -----
----- Price: Base			
business.....		\$ 72	
	0.6%	\$ 162	1.4%
Commodity.....		69	0.6 (161) (1.4)
Electricity.....		(34)	(0.3) (10) (0.1)
Fuel.....		(25)	(0.2) 1 --
price.....		82	
	0.7	(8)	(0.1)
Volume.....		(174)	(1.6) (86) (0.7)
Internal			
growth.....		(92)	
	(0.9)	(94)	(0.8)
Acquisitions.....		82	0.7 89 0.8
Divestitures.....		(12)	(0.1) (235) (2.1)
translation.....		(6)	-- (20)
	(0.2)		----- \$ (28) (0.3)% \$(260)
	(2.3)%	=====	=====

NASW revenues decreased by \$28 million in 2002 as compared to 2001. We experienced negative internal growth in our NASW operations of 0.9%, or \$92 million, which was substantially volume related. The negative volume decline of 1.6%, or \$174 million, compared to 2001 is largely related to commercial and industrial collection services throughout our operations, with the exception of the southern portion of the United States, where we realized slight volume increases. We also experienced declines in disposal revenue due to volume primarily in the eastern and western portions of the United States. We believe that the overall decreased volumes, particularly in the higher margin commercial and industrial collection services, were attributable to the lagging economy and increased competition. However, offsetting these declines were increases in volumes related to our recycling operations of \$19 million in 2002 as compared to 2001.

Offsetting the decrease in revenue due to volume declines were price related revenue increases of \$82 million, or 0.7%, in 2002 as compared to 2001. Of this increase, \$69 million, or 0.6%, is attributable to the significant increase in commodity prices of OCC and ONP. OCC prices increased to an average price of \$74 per ton for 2002 as compared to an average price of \$49 per ton for 2001. Reduced electricity rates in California and reduced fuel surcharges negatively impacted the price related revenue change by \$59 million, or 0.5%. Revenue change due to price in our base business reflected an increase of \$72 million, or 0.6%, was derived from our commercial and residential collection and transfer station operations. These price related revenue increases were offset partially by decreased pricing in our landfill special waste operations.

We also experienced increases in revenue of \$82 million in 2002 from acquisitions consummated during 2002 and the full year effect of acquisitions completed in 2001. Offsetting this was a decrease in revenue of \$18 million due to divestitures and the effect of foreign currency fluctuations related to the Canadian dollar.

NASW revenues decreased from 2000 to 2001 by \$260 million due primarily to divestitures of our non-integrated NASW operations during 2000. We also experienced a reduction of revenue due to volume of \$86 million, largely attributable to the overall slowing of the North American economy, the termination of unprofitable accounts and the impact of our policy change for third party brokers, which required more stringent contract requirements, resulting in the loss of some brokered waste. NASW operating revenues also declined because of fluctuations in the foreign currency exchange rate of the Canadian dollar, which reduced revenues by \$20 million. In addition, revenue changes due to price reflected a decline of \$8 million due to combined revenue declines of \$171 million from recycling commodities and electricity sales by IPPs, substantially offset by increased revenues due to price in the base business of \$162 million. Offsetting these revenue declines were the acquisition of certain NASW operations in 2001 and the year-over-year effect of acquisitions of NASW operations in 2000.

OPERATING COSTS AND EXPENSES (EXCLUSIVE OF DEPRECIATION AND AMORTIZATION SHOWN BELOW)

Our operating costs and expenses include direct and indirect labor and related taxes and benefits, fuel, maintenance and repairs of equipment and facilities, tipping fees paid to third party disposal facilities and transfer stations, and accruals for future landfill closure and post-closure costs and environmental remediation. Certain direct landfill development expenditures are capitalized and amortized over the estimated useful life of a site as capacity is consumed, and include acquisition, engineering, upgrading, construction, capitalized interest, and permitting costs. Additionally, we sometimes receive reimbursements from insurance carriers relating to environmentally related remedial, defense and tort claim costs. Such recoveries are included in operating costs and expenses as an offset to environmental expenses. Our operating costs and expenses increased 1.2% in 2002 as compared to 2001, and decreased 11.6% in 2001 as compared to 2000. As a percentage of operating revenues, operating costs and expenses decreased from 60.4% in 2000 to 58.9% in 2001 and increased to 60.5% in 2002.

The most significant factor causing the change in operating expenses between 2002 and 2001 was the offset to operating costs and expenses of approximately \$105 million recorded in 2001 for the recovery of claims against insurers for reimbursement of environmental expenses. Operating expenses were also higher in 2002 as compared to 2001 because of (i) increases in salary, wages and employee benefit costs, (ii) higher workers' compensation costs, (iii) increases in disposal and subcontractor costs and (iv) higher costs associated with recycling commodities.

The headcount reductions associated with our March 2002 reorganization allowed us to realize significant cost reductions. However, the reorganization also resulted in a re-characterization of certain costs that were reported as selling, general and administrative expenses in prior periods due to changes in certain roles and responsibilities. This change, along with additional costs associated with annual merit increases, more than offset the decrease in operating expenses as a result of the headcount reductions.

Disposal cost increases were primarily related to increased taxes on the disposal of waste in Pennsylvania, which were partially offset by decreases in disposal costs due to declines in volumes in 2002 as compared with 2001. Subcontractor cost increases included increased utilization of subcontractors for certain of our national account customers in areas where services are not provided by us and increased use of third party transportation of waste to disposal facilities. The increased costs associated with recycling commodities were due primarily to an increase in market prices paid for OCC and ONP, which resulted in increased rebates paid to customers.

Offsetting these increases was the effect of divestitures of our international operations in 2001 and the non-solid waste operations in the first quarter of 2002. The divestitures decreased operating expenses by approximately \$115 million in 2002 as compared to 2001. Also offsetting the increased costs and expenses in 2002 as compared with 2001 were lower fuel costs, including fuel used to operate our IPPs, reduced maintenance costs and lower construction services at certain of our waste-to-energy facilities that we operate but do not own.

The year-to-year decline in operating costs and expenses between 2000 and 2001 was primarily caused by the sales of our international, non-solid waste and non-integrated NASW operations. These sales occurred throughout 2000 and into 2001. Adding to the decrease was the effect of the volume declines in 2001 as compared to 2000, as described in the discussion of NASW operating revenues. Additionally, in 2000 we initiated cost saving improvements in our procurement practices and began to develop more standardized operating procedures. Our improvements continued in 2001 and caused further decreases in operating costs and expenses into 2001. In 2001 we implemented other cost saving initiatives, such as preventative maintenance programs that created an overall reduction in repair and maintenance costs. Finally, in 2001 we aggressively pursued our claims against insurers for reimbursement of environmental expenses, recovering approximately \$105 million in 2001 as compared to \$2 million in 2000, which were recorded as an offset to operating costs and expenses. If we excluded the insurance recoveries, operating costs and expenses as a percentage of revenues would have been 59.8% in 2001.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses include management salaries, clerical and administrative costs, marketing costs, professional services, facility rentals, provision for doubtful accounts and related insurance costs, as well as costs related to our sales force and customer service.

Our selling, general and administrative expenses decreased \$93 million, or 5.7%, in 2002 as compared to 2001, and decreased \$116 million, or 6.7%, in 2001 compared to 2000. As a percentage of operating revenues, our selling, general and administrative expenses were 13.7% for 2002, 14.3% for 2001 and 13.9% for 2000.

The decrease in selling, general and administrative expenses in 2002 as compared to 2001 is primarily attributable to management's focus on reducing spending related to professional fees, travel and entertainment, and other administrative costs. Additionally, expenses decreased due to headcount reductions and the re-characterization of certain expenses as costs of operations rather than selling, general and administrative expenses as a result of the March 2002 restructuring. Finally, costs further decreased due to the divestitures of non-solid waste and international operations in 2001 and in early 2002.

The reductions in selling, general and administrative expenses were offset partially by increased costs associated with both litigation settlements and expense, higher bad debt expense largely attributable to the weaker economy, workers compensation costs, and property-related costs such as property taxes, maintenance and security. Selling, general and administrative expenses as a percentage of operating revenues decreased in 2002 as compared with 2001 because of these same factors, since operating revenues remained essentially flat between the two periods.

The increase in selling, general and administrative costs as a percentage of revenues from 2000 to 2001 is due to the decrease in NASW revenues in the corresponding periods as discussed above. However, the decrease in actual selling, general and administrative expenses from 2001 as compared to 2000 is due mostly to the divestitures that we completed throughout 2000. In addition, as discussed below, we had significant costs in 2000 related to accounting and process improvement initiatives. These costs were not as significant in 2001, as we were able to stabilize our accounting systems and substantially complete our process improvement initiatives in the second half of 2000. Offsetting these decreases were costs related to corporate staffing increases, which began primarily in 2000 and continued in 2001.

In 2000, we incurred significant costs for our process improvement initiatives and accounting assistance. These costs were mainly in the first half of 2000 because, by the second half of 2000, we had stabilized our accounting systems and completed our process improvement initiatives, which significantly reduced our ongoing need for these services. In 2000, we incurred approximately \$196 million for professional accounting and process improvement consulting services and consulting services related to the implementation of new enterprise information systems. We also incurred approximately \$51 million related to our divestitures, improvements to our billing systems and verification of our customer base, and legal fees related to certain stockholder litigation and other SEC matters. However, in 2000 we were successful in collecting certain accounts that were reserved for in 1999, favorably impacting our provision for bad debt in 2000.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization includes (i) amortization of intangible assets with a definite life other than goodwill on a straight-line basis, generally 3 to 7 years, or over the definitive terms of the related agreements; (ii) depreciation of property and equipment on a straight-line basis from 3 to 50 years; and (iii) amortization of landfill costs on a units-of-consumption method as landfill airspace is consumed over the estimated remaining capacity of a site. In 2001 and 2000, depreciation and amortization expense also included the amortization of goodwill on a straight-line basis over a period of 40 years or less, commencing on the dates of the respective acquisition.

Depreciation and amortization expense decreased 10.9% in 2002 as compared to 2001 and decreased 4.1% in 2001 as compared to 2000. As a percentage of operating revenues, depreciation and amortization expense was 11.0% in 2002, 12.1% in 2001 and 11.4% in 2000.

Under the new structure approximately 1,900 field-level administrative and operational positions have been eliminated. Our obligation for severance payments will continue into 2003. As of December 31, 2002, payments of \$33 million for employee severance and benefits and for abandoned leases had been recorded against the restructuring liability that was previously established.

ASSET IMPAIRMENTS AND UNUSUAL ITEMS

In 2002, the net gain for asset impairments and unusual items was due primarily to (i) our receipt of approximately \$11 million related to a non-revenue producing asset written down as an asset impairment in 1998, (ii) net gains of approximately \$8 million on divestitures during the year and (iii) reductions to legal and loss contract reserves of approximately \$8 million and \$7 million, respectively, that we deemed were in excess of current requirements and that were initially recognized as a charge to asset impairments and unusual items.

In 2001, the expense was comprised mainly of a charge of \$374 million, which is net of the recovery from our insurers and the stockholders derivative suit against our former independent public accountant, Arthur Andersen LLP, for the settlement reached in connection with the stockholder class action lawsuit filed against us in July 1999 alleging violations of the federal securities laws. The settlement, which is subject to court approval, provides for our payment to the class of \$457 million, and we believe the payment, which is expected to be made in 2003, will result in a net cash outflow of approximately \$230 to \$240 million after considering insurance, tax deductions and related settlement costs. In addition, we recorded a held-for-sale adjustment of approximately \$15 million related to our international operations along with a held-for-sale adjustment for an investment in Mexican solid waste operations of approximately \$28 million. Offsetting these expenses was a net gain of \$24 million (comprised of the reversal of the held-for-sale impairment of \$109 million and a held-for-use impairment of \$85 million) from our decision during the third quarter of 2001 not to sell all but one of our IPPs, and the reclassification in the third quarter of 2001 of all but one of our IPPs from held-for-sale to held-for-use. Also included in asset impairments and unusual items for 2001 are reversals of certain loss contract reserves of \$13 million that we determined to be in excess of current requirements.

In 2000, these costs were primarily due to our sale of our international operations and the termination of WM Holdings' defined benefit pension plan, which are more fully described in Notes 16 and 13, respectively, to the consolidated financial statements.

INTEREST EXPENSE

Our interest expense decreased consistently each year from 2000 to 2002. The primary factor for the decrease in interest expense in 2002 is our interest rate derivative contracts, which are utilized to manage our interest rate exposure and the general decline in interest rates. Interest rate swap agreements reduced interest expense by \$86 million for 2002 and contributed to the decrease by \$39 million in 2001. The remaining decrease in interest expense in 2001 is primarily due to the pay down of debt with proceeds from our divestitures and cash flows from operations. In 2002, the refinancing of debt instruments at lower interest rates created additional interest expense savings. Additionally, to further reduce interest expense we have increased our utilization of tax-exempt bond financing over the past two years as a lower-cost source of funding.

OTHER INCOME

We experienced an increase in other income in 2002 as compared to prior years due primarily to the sale of an equity investment. In 2002, a company in which we held an approximately 17% interest was acquired by another entity. We held a note from the acquired company that was paid off in connection with the acquisition. The proceeds from the repayment of the note and the sale of our equity investment resulted in a gain of approximately \$43 million in the fourth quarter of 2002.

PROVISION FOR INCOME TAXES

We recorded a provision for income taxes of \$424 million, \$284 million and \$418 million for 2002, 2001 and 2000, respectively, resulting in an effective income tax rate of 34.0%, 36.1% and 130.2% for each of the three years, respectively.

The difference in federal income taxes computed at the federal statutory rate and reported income taxes for 2002 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. In addition, we recognized a tax benefit of approximately \$16 million due to a capital gain generated in 2002 that enabled us to utilize a previously unbenefited capital loss that arose from a divestiture. A tax benefit of approximately \$31 million was also recognized in 2002 related to the carry-back of losses by our Dutch subsidiary.

The difference in federal income taxes computed at the federal statutory rate and reported income taxes for 2001 is primarily due to state and local income taxes, non-deductible costs associated with the impairment of certain businesses, the cost associated with remitting the earnings of certain foreign subsidiaries that are no longer permanently reinvested, offset in part by non-conventional fuel tax credits. Additionally, in 2001 scheduled Canadian federal and provincial tax rate reductions resulted in a benefit of \$42 million, which was offset in part by a tax expense of \$24 million related to our plan to repatriate certain capital and earnings previously deemed permanently invested in Canada.

The 130.2% effective tax rate in 2000 is significantly higher than the federal statutory rate due to state and local income taxes, non-deductible costs relating to acquired intangibles, write down of investments in subsidiaries and minority interest, sales of foreign subsidiaries and the cost associated with remitting earnings of foreign subsidiaries that are no longer permanently reinvested, offset in part by non-conventional tax credits.

EXTRAORDINARY ITEMS

During the first quarter of 2002, we refinanced approximately \$49 million of fixed-rate tax exempt bonds maturing in 2011 with variable-rate tax exempt bonds maturing in 2022. As a result, we incurred prepayment penalties and other fees for a total charge, net of tax benefit, of approximately \$1 million.

During the fourth quarter of 2002, we elected to repay approximately \$145 million of our senior debt issuances prior to their maturity dates. In connection with these repayments, we recognized an extraordinary charge of approximately \$2 million, net of tax benefit, for the prepayment penalties and other costs related to the retired debt.

In the first quarter of 2001, we worked with local governmental authorities to refinance \$339 million of fixed-rate tax-exempt bonds maturing through 2008 with \$326 million of variable-rate tax-exempt bonds maturing through 2011 and \$17 million of fixed-rate bonds that matured later in 2001. We recorded a net extraordinary loss of \$1 million for the remaining unamortized premium and issuance costs related to the retired debt.

On July 17, 1998, we issued \$600 million of 6 1/8% mandatorily tendered senior notes, due July 15, 2011. The notes were subject to certain mandatory tender features as described in the indenture, which allowed us to purchase all of the outstanding notes on July 15, 2001. We used available cash on hand along with funds from our credit facility to purchase the notes in July 2001. During the third quarter of 2001, we recorded an extraordinary loss of approximately \$1 million, net of taxes, for the retirement of this debt.

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

As a result of adopting SFAS No. 141, Accounting for Business Combinations, ("SFAS No. 141") on January 1, 2002, we were required to write-off amounts of negative goodwill that had been recorded in prior periods through purchase accounting. The aggregate amount of negative goodwill was \$2 million and was recorded as a credit to cumulative effect of change in accounting principle in the first quarter of 2002.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS No. 133"), became effective for us as of January 1, 2001. Adoption of SFAS No. 133, resulted in a gain, net of tax, of approximately \$2 million in the first quarter of 2001.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of our cash balances and cash flows for the years ended December 31, 2002, 2001 and 2000 (in millions):

2002	2001	2000	-----	-----	-
-----	Cash and cash equivalents	at the end of the year.....	\$		
264	\$ 730	\$ 94	=====	=====	
=====	Cash provided by	operating	activities.....	\$	
2,153	\$ 2,355	\$ 2,125	=====		
=====	Cash provided by	(used in) investing	activities.....	\$ (962)	
\$(1,232)	\$ 1,072		=====		
=====	Cash used in financing	activities.....			
\$(1,658)	\$ (485)	\$(3,279)	=====	=====	

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper purchased with original maturities of three months or less.

Our cash balances decreased \$466 million from December 31, 2001 to December 31, 2002. This decrease is primarily attributable to capital expenditures, our stock repurchase program and the repayment of portions of our senior note issuances prior to their maturity dates, which exceeded our existing cash balances and our \$2.2 billion of operating cash flow.

In 2002, cash flow from operations was favorably impacted by cash received of \$166 million from counterparties for certain interest rate swap agreements that we terminated prior to the scheduled maturities, offset by cash paid of \$66 million to counterparties for the settlement of hedging agreements entered into to secure underlying interest rates related to our 2002 debt issuances. Included in our investing activities was cash paid of \$1.3 billion for capital expenditures and \$162 million for acquisitions of solid waste businesses. These expenditures were offset by proceeds of \$487 million from other investing activities, primarily proceeds from sales of assets and net cash receipts from restricted funds. Included in our financing activities was cash paid of \$982 million for the repurchase of shares of our common stock. In addition we paid \$697 million for net debt reductions and received \$27 million from exercises of common stock options and warrants.

In 2001, we generated cash flows from operations of approximately \$2.4 billion. Favorably impacting cash flows from operations was cash received of \$59 million for the settlement of environmental related claims that we had against certain insurance carriers and \$64 million that we received from counterparties when we terminated certain interest rate swap agreements prior to the scheduled maturities. Included in our investing activities was \$1.3 billion of capital expenditures and \$116 million for acquisitions of solid waste businesses. These expenditures were offset by proceeds from sales of assets and other investing activities of \$212 million. In addition, we used \$485 million for financing activities, which is comprised of \$510 million of net debt reductions and \$25 million of other financing activities, offset by proceeds of \$50 million from exercises of common stock options and warrants, and other financing activities.

In 2000, we spent \$231 million to acquire businesses, \$1.3 billion in capital expenditures and \$3.3 billion on net debt reductions. We financed these cash expenditures primarily with \$2.1 billion of cash flows from operations and \$2.6 billion of proceeds from our divestitures. A tax refund of approximately \$200 million and our improvements in accounts receivable average days sale outstanding favorably impacted cash flows from operations in 2000.

We operate in a capital intensive business and continuing access to various financing sources is vital to our operations. In the past, we have been successful in obtaining financing from a variety of sources on terms we consider attractive. Based on several key factors we believe considered by credit rating agencies and

obligation, if any, in shares of our common stock.

- (b) The weighted average daily market price of our stock during the valuation period times the number of shares we purchased was approximately \$18 million less than the approximately \$300 million we initially paid. Pursuant to the terms of the agreement, the counterparty paid us this difference of approximately \$18 million at the end of the valuation period, which occurred during the third quarter of 2002, to settle the agreement. We accounted for the cash receipt as an adjustment to the carrying value of treasury stock and have therefore included it in common stock repurchases within financing activities in the consolidated statement of cash flows.
- (c) The weighted average daily market price of our stock during the valuation period times the number of shares we purchased was approximately \$3 million less than the approximately \$42 million we initially paid. Pursuant to the terms of the agreement, the counterparty will pay us the difference of approximately \$3 million at the end of the valuation period to settle the agreement.
- (d) We engaged in open market purchases when trading was allowed pursuant to law and our insider trading policy.

The following table summarizes our contractual obligations as of December 31, 2002 and the anticipated effect of these obligations on our liquidity in future years (in millions):

	2003	2004	2005	2006	2007
THEREAFTER TOTAL	----	----	----	----	----
----- Debt payments, excluding interest.....	\$231				
\$ 737 \$ 900 \$494 \$474					
\$5,457 \$ 8,293 Expected aggregate environmental liabilities (based on current cost)					
(a).....	114				
69 68 56 46 2,639 2,992					
Non-cancellable rental obligations.....					
149 145 140 133 111 502					
1,180 Unconditional purchase obligations(b).....					
338 67 39 39 19 267 769					

Anticipated liquidity impact as of December 31, 2002.....					
\$832 \$1,018 \$1,147 \$722					
\$650 \$8,865 \$13,234 =====					
=====					
=====					

- (a) Environmental liabilities include final closure, post-closure and environmental remediation costs. See Note 8 to the consolidated financial statements for additional discussion.
- (b) See Note 20 to the consolidated financial statements for discussion on the nature and terms of our unconditional purchase obligations.

We have contingencies, including guarantee arrangements, that are deemed not reasonably likely and thus not included in the above table. See Note 20 to the consolidated financial statements for further discussion.

Additionally, we expect a net cash outflow, after considering insurance, tax deductions and related settlement costs, of approximately \$230 to \$240 million in 2003 for settlement of our securities class action lawsuit. The settlement fund began to accrue interest, at the Federal Funds rate, during the second quarter of 2002, although payment will not become due until the judgment is final, which we expect to occur in 2003.

To meet our capital needs and contractual obligations, as described above, our strategy is to utilize cash flows from operations. We also have bank borrowings available to meet our capital needs and contractual obligations and, when appropriate, will obtain financing by issuing debt or common stock.

As of December 31, 2002, we had a \$650 million syndicated revolving credit facility (the "Three Year Revolver"), and a \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of December 31, 2002, we had letters of credit in the aggregate amount of approximately \$1.75 billion (of which approximately \$1.63 billion are issued under the revolving credit facilities) that generally have terms allowing automatic renewal after a year. At December 31, 2002, no balances were outstanding under our revolving credit facilities and we had unused and available credit capacity under these facilities of approximately \$770 million.

As of December 31, 2002, the financial covenants we are required to maintain under our credit facilities include (i) an interest coverage ratio; (ii) total debt to EBITDA and; (iii) minimum net worth, all as defined in the credit facilities solely for the purpose of determining compliance with the covenants. The interest coverage ratio requires that at the end of any fiscal quarter we will not permit the ratio of (A) our consolidated net income plus interest expense and income taxes ("EBIT") for the four fiscal quarters then ending to (B) consolidated total interest expense for such period to be less

than 2.5 to 1 for quarters ending on or before December 31, 2002 and 3 to 1 thereafter. The total debt to EBITDA covenant requires that at the end of any fiscal quarter, we will not permit the ratio of (A) all indebtedness and certain contingent liabilities such as financial guarantees to (B) EBIT plus depreciation and amortization expense ("EBITDA") for the four fiscal quarters then ending to exceed 3 to 1. Our minimum net worth covenant requires that we will not allow the sum of stockholders' equity to be less than \$3.5 billion plus 75% of our cumulative consolidated net income for each fiscal quarter, beginning with the first fiscal quarter ended March 31, 2001. At December 31, 2002, we are in compliance with all covenants under our credit facilities and all other debt instruments. In January 2003, our total debt to EBITDA covenant was amended to not permit that ratio to exceed 3.25 to 1 rather than 3 to 1.

In November 2002, we privately placed \$400 million of 6 3/8% senior unsecured notes due 2012. Interest on the notes is due on May 15 and November 15 of each year. The net proceeds of the offering were approximately \$396 million after deducting underwriters' discounts and expenses. We used these proceeds primarily to pay the \$350 million of 6.5% senior notes that came due December 15, 2002.

In May 2002, we privately placed \$500 million of 7 3/4% senior unsecured notes due 2032. Interest on the notes is due on November 15 and May 15 of each year. The net proceeds of the offering were approximately \$498 million, after deducting underwriters' discounts and expenses. We used these proceeds to pay the \$300 million of 6.625% senior notes that matured on July 15, 2002 and a portion of the \$285.7 million of 7.7% senior notes that matured on October 1, 2002.

Additionally, we have issued industrial revenue bonds primarily for the construction of various facilities. Proceeds from these financing arrangements are directly deposited into trust funds and we do not have the ability to utilize the funds in regular operating activities. Accordingly, these amounts are reported as an investing activity when the cash is released from the trust funds and a financing activity when the industrial revenue bonds are repaid. At December 31, 2002, approximately \$412 million of cash was held in trust to meet future capital expenditures at various facilities.

We have \$434 million of 6.375% senior notes due December 1, 2003. We also have \$450 million of 7.1% senior notes due August 1, 2026 that are subject to early redemption on August 1, 2003 at the option of the holders. We have classified approximately \$770 million of these borrowings as long-term at December 31, 2002 based upon our ability to use our revolving credit facilities, which are both long-term, to refinance these borrowings at their respective maturity or repayment date. We intend to pursue other sources of long-term financing to refinance the borrowings; however, in the event other sources of long-term financing are not available, we intend to use our revolving credit facilities.

We manage the interest rate risk of our debt portfolio principally by using interest rate derivatives to achieve a desired position of fixed and floating rate debt, which is approximately 70% fixed and 30% floating at December 31, 2002. In addition, we periodically enter into derivative transactions to secure the then current market interest rate in anticipation of senior debt issuances.

During 2002, we entered into hedging agreements to secure the underlying treasury rates in anticipation of our 2002 senior note issuances. We settled with the counterparties for approximately \$66 million, which was paid concurrently with related 2002 senior note issuances discussed above.

In 2002, we elected to terminate several interest rate swap agreements with a notional amount of \$2.95 billion prior to the scheduled maturities and received cash of approximately \$200 million (which is comprised of \$166 million for the fair value of the swaps that were terminated and \$34 million of accrued but unpaid interest receivable) from the counterparties to the interest rate swaps. Under the hedge method of accounting for these types of derivatives, the unamortized adjustment to long-term debt for the terminated swaps remains classified as long-term debt. The proceeds received from the termination of the interest rate swap agreements have been classified as a change in other assets or other liabilities within operating activities in the consolidated statement of cash flows.

VARIABLE INTEREST ENTITIES

On June 30, 2000, two limited liability companies ("LLCs") were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we operate under an agreement with the owner. John Hancock Life Insurance Company ("Hancock") has a 99.5% ownership in one of the LLCs, the second LLC is 99.5% collectively owned by Hancock and the CIT Group ("CIT") and we own the remaining 0.5% interest in each. Hancock and CIT made an initial investment of approximately \$167 million in the LLCs. The LLCs used these proceeds to purchase the three waste-to-energy facilities that we operate and assumed the seller's indebtedness related to these facilities. Under the LLC agreements, the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all the members of the LLCs to dissolve, (ii) December 31, 2003, (iii) the entry of a decree of judicial dissolution under the Delaware Limited Liability Company Act, or (iv) the LLCs ceasing to own any interest in these waste-to-energy facilities. Income, losses and cash flows are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, the amounts will be allocated 20% to Hancock and CIT and 80% to us. We do not expect Hancock and CIT to achieve the targeted returns in 2003 or at any time during the initial base term of the lease. We account for the underlying leases as operating leases. We are required under certain circumstances to make capital contributions to the LLCs in the amount of the difference between the stipulated loss amounts and termination values under the LLC

agreements to the extent they are different from the underlying lease agreements. We believe that the likelihood of the occurrence of these circumstances is remote.

During 2002, we had aggregate lease payments of approximately \$62 million. Under the LLC agreements, if we exercise certain renewal options under the leases, we will be required to make capital contributions to the LLCs for the difference, if any, between fair market rents and the scheduled renewal rents. As of December 31, 2002, the remaining aggregate lease commitments related to these waste-to-energy facilities are \$526 million, which includes \$158 million in required capital contributions to the LLC for the amount of the difference between bargain renewals and the fair value of the lease. These minimum lease payments are included in the table of non-cancelable rental obligations as discussed in Note 20 of the consolidated financial statements.

We are the manager of the LLCs but there are significant limitations on the powers of the manager under the LLC agreements. Accordingly, we account for our interest in the LLCs under the equity method of accounting. These investments had a carrying value of approximately \$1 million at both December 31, 2002 and December 31, 2001. If we were required to consolidate the LLCs, we would record approximately \$414 million in assets, and \$208 million of debt as of December 31, 2002. The remaining balance that would be recorded would primarily be minority interest. There would be no material net impact to our results of operations if we consolidated the LLCs instead of accounting for them under the equity method.

ACCOUNTING FOR STOCK OPTIONS

We account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as amended, under which no compensation cost for stock options is recognized when granted with an exercise price equal to fair value. SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), establishes accounting and annual disclosure requirements for options granted after 1994 using a fair-value-based method of accounting. As of December 31, 2002, 2001, and 2000, we had approximately 44.5 million, 41.5 million and 40.3 million stock options and warrants outstanding, respectively. The weighted average fair value per share of stock options granted during 2002, 2001 and 2000 as determined under SFAS No. 123 was \$12.16, \$10.83 and \$6.78, respectively.

The fair value of each common stock option granted to employees or directors during 2002, 2001 and 2000 is estimated utilizing the Black-Scholes option pricing model. Black-Scholes is a formula that calculates an estimated value of stock options based on appreciation and interest rate assumptions and therefore, the fair value calculation of a stock option using Black-Scholes is not necessarily indicative of the actual value of a stock option. The following weighted average assumptions were used: dividend yield of 0%, risk-free interest rates which vary for each grant and range from 2.91% to 6.19%, expected life of four to seven years for all grants, and stock price volatility primarily ranging from 23.7% to 50.4%.

The following schedule reflects the impact on net income and earnings per common share if we had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation (in millions, except per share amounts).

YEARS ENDED DECEMBER 31, -----	2002	2001	2000	-----
-----				-----
- -----				-----
Reported net income				
(loss).....				
\$ 822 \$ 503 \$ (97) Less: compensation				
expense per SFAS No. 123, net of				
tax.....	85	83	75	-----
Pro forma net income				
(loss).....				
\$ 737 \$ 420 \$ (172) =====				=====
BASIC EARNINGS PER COMMON SHARE:				
Reported net income				
(loss).....				
\$1.34 \$0.80 \$(0.16) Less: compensation				
expense per SFAS No. 123, net of				
tax.....	0.14	0.13	0.12	-----
--- Pro forma net income				
(loss).....				
\$1.20 \$0.67 \$(0.28) =====				=====
DILUTED EARNINGS PER COMMON SHARE:				
Reported net income				
(loss).....				

\$1.33	\$0.80	\$(0.16)	Less: compensation			
			expense per SFAS No. 123, net of			
tax.....	0.14	0.13	0.12	-----	-----	---
			--- Pro forma net income			
(loss).....						
\$1.19	\$0.67	\$(0.28)	=====	=====	=====	

SEASONALITY AND INFLATION

Our operating revenues tend to be somewhat lower in the winter months, which corresponds with our first and fourth quarters. This is mostly because (i) the volume of construction and demolition waste is lower in the winter because there is less construction activity and (ii) the volume of industrial and residential waste in certain regions where we operate tends to decrease during the winter months.

We do not believe that inflation has, nor do we expect it to have, any material adverse effect on our results of operations in the near future.

RECENT DEVELOPMENTS

In January 2003, we announced that we had formed a new recycling entity, Recycle America Alliance, L.L.C. ("RAA"), a wholly-owned subsidiary, in an effort to optimize the capacity and improve the profitability of our recycling operations. In connection with the formation of RAA, we transferred substantially all recycling assets and businesses of our other subsidiaries to RAA. RAA's strategy includes combining its assets and operations with a number of key processors and marketers. On January 10, 2003, the Peltz Group, the largest privately-held recycler in the United States, contributed all of its assets to RAA in exchange for an initial payment by RAA of approximately \$58 million in cash and the issuance of approximately 9% of the equity interest in RAA.

In February 2003, we announced that we will implement further restructuring to reorganize our operations into a smaller number of Market Areas in an effort to reduce overhead costs. As part of the restructuring, there will be a net workforce reduction of about 700 employees and 270 contract workers. We anticipate a charge of approximately \$23 million for this restructuring.

NEW ACCOUNTING PRONOUNCEMENTS AND OTHER ACCOUNTING CHANGES

NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 143

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143. SFAS No. 143 applies to all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. SFAS No. 143 requires amounts initially recognized as an asset retirement obligation to be measured at fair value. The recognized asset retirement cost is capitalized as part of the cost of the asset and is depreciated over the useful life of the asset.

SFAS No. 143, which will primarily impact the accounting for our landfill operations, does not change the basic landfill accounting followed historically by us along with others in the waste industry. In general, the waste industry has recognized expenses associated with both amortization of capitalized costs and future closure and post-closure obligations on a units-of-consumption basis as airspace is consumed over the life of the related landfill. This practice, referred to as life cycle accounting within the waste industry, will continue to be followed upon adoption of SFAS No. 143, except as discussed below.

Under the new rules, costs associated with future final capping activities that occur during the operating life of a landfill, which are currently recognized on an undiscounted basis over the operating life of the landfill as airspace is consumed, will be accounted for as an asset retirement obligation, on a discounted basis. We expect to recognize landfill retirement obligations that relate to closure and post-closure activities over the operating life of a landfill as landfill airspace is consumed and the obligation is incurred. We expect to recognize our final capping obligations on a discrete basis for each expected future final capping event over the number of tons of waste that each final capping event is expected to cover. These obligations will be initially measured at estimated fair value. Fair value will be measured on a present value basis, using a credit-adjusted, risk-free rate, initially 7.25%, which is higher than the risk-free rate previously used for discounting closure and post-closure obligations. Interest will be accreted on all landfill retirement obligations using the effective interest method. Landfill retirement costs arising from closure and post-closure obligations, which will be capitalized as part of the landfill asset, will be amortized using our existing landfill accounting practices.

constructed,
demobilization,
and a part of
final capping
the routine
maintenance
costs incurred
after site
ceases to
accept waste,
but prior to
being certified
closed - -----

----- Post-
closure
Includes
routine
monitoring and
No change
maintenance of
a landfill
after it has
closed, ceased
to accept waste
and been
certified as
closed by the
applicable
state
regulatory
agency - -----

----- DISCOUNT
RATE: Risk-free
rate (5.0% at
December 31,
Credit-
adjusted, risk-
free rate
(7.25%) 2002) -

COST ESTIMATES:
Costs are
estimated based
on performance,
No change,
except that the
cost of any
principally by
third parties,
with a
activities
performed
internally must
be small
portion
performed by us
increased to
represent an
estimate of the
amount a third

party would
charge to
perform such
activity - ----

INFLATION: Cost
is inflated to
period of
performance
Inflation rate
changed to 2.5%
effective (2.0%
at December 31,
2002) January
1, 2003 - ----

RECOGNITION OF
LIABILITY:
Final Capping
Costs are
capitalized as
spent, except
All final
capping will be
recorded as a
for the last
final capping
event that
liability and
asset when
incurred; the
occurs after
the landfill
closes, which
discounted cash
flow associated
with each is
accounted for
as part of
closure final
capping event
is recorded to
the accrued
liability with
a corresponding
increase to
landfill assets
as airspace is
consumed
related to the
specific final
capping event -

STATEMENT OF
OPERATIONS
EXPENSE:
Liability
accrual
Expense
charged to
cost of
operations
at Not
applicable
same amount
accrued to
liability -

Landfill
asset
amortization
Not
applicable
The landfill
asset is
amortized to
depreciation
and
amortization
expense as
airspace is
consumed
over life of
specific
final
capping
event or
life of
landfill for
closure and
post-closure

Accretion
Expense,
charged to
cost of
operations,
Expense,
charged to
cost of
operations,
is accrued
at risk-free
rate over
the is
accreted at
credit-
adjusted,
life of the
landfill as
airspace is
risk-free
rate (7.25%)
under the
consumed

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). It clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of the liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of FIN 45 are effective for us on a prospective basis to guarantees issued after December 31, 2002. We will record the fair value of future material guarantees, if any. See Note 20 to the consolidated financial statements for current disclosure requirements related to our guarantee arrangements.

FIN 46

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"). FIN 46 requires that unconsolidated variable interest entities be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to existing variable interest entities in the periods beginning after June 15, 2003. See Note 21 to the consolidated financial statements for discussion on our existing variable interests. We have yet to determine the impact that the adoption of FIN 46 will have on our consolidated financial statements.

OTHER ACCOUNTING CHANGES

Repairs and Maintenance

Through December 31, 2002, we accrued in advance for major repairs and maintenance expenditures at our waste-to-energy facilities and IPPs. Effective January 1, 2003, we changed our policy from this method to one that expenses these costs as they are incurred. In the first quarter of 2003, we expect to record approximately \$30 million, net of taxes, as a credit to cumulative effect of an accounting change.

Loss Contract Accrual

Through December 31, 2002, we accrued for future losses for contracts that over the contract life were projected to have direct costs greater than revenues. Effective January 1, 2003, we changed our policy from this method to one that expenses these costs as they are incurred. In the first quarter of 2003, we expect to record approximately \$30 million, net of taxes, as a credit to cumulative effect of an accounting change.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of business, we are exposed to market risk, including changes in interest rates, foreign currency rates, certain commodity prices and certain equity prices. From time to time, we and certain of our subsidiaries use derivatives to manage some portion of these risks. Our derivatives are agreements with independent third parties that provide for payments based on a notional amount, with no multipliers or leverage. As of December 31, 2002, all of the derivatives were related to actual or anticipated exposures of our transactions, with the exception of certain derivatives related to the fiber commodity markets that were entered into for trading purposes. We are exposed to credit risk in the event of non-performance by counterparties to derivatives. However, we monitor our derivative positions by regularly evaluating our positions and the creditworthiness of the counterparties, all of whom we either consider credit worthy, or who have issued letters of credit to support their performance. See Note 10 to the consolidated financial statements for discussion regarding terminated fiber agreements with Enron North America Corp. ("Enron").

We have performed sensitivity analyses to determine how market rate changes might affect the fair value of our market risk sensitive derivatives and related positions. This analysis is inherently limited because it represents a singular, hypothetical set of assumptions. Actual market movements may vary significantly from

our assumptions. The effects of market movements may also directly or indirectly affect our assumptions and our rights and obligations not covered by sensitivity analysis. Fair value sensitivity is not necessarily indicative of the ultimate cash flow or the earnings effect from the assumed market rate movements.

Interest Rate Exposure. Our exposure to market risk for changes in interest rates relates primarily to our debt obligations, which are denominated in U.S. dollars. In addition, we use interest rate swaps to either lock-in or limit the variability in the interest rates to manage the mix of fixed and floating rate debt obligations. An instantaneous, one percentage point decrease in interest rates across all maturities and applicable yield curves would increase the fair value of our combined debt and interest rate swap positions at December 31, 2002 and 2001 by approximately \$482 million and \$394 million, respectively. This analysis does not reflect the effect that declining interest rates would have on other items, such as new borrowings, nor the favorable impact they would have on interest expense and cash payments for interest. Since a significant portion of our debt is at fixed rates, changes in market interest rates would not significantly impact operating results until and unless our fixed rate debt would need to be refinanced at maturity.

Currency Rate Exposure. From time to time, we and certain of our subsidiaries have used foreign currency derivatives to mitigate the impact of currency translation on cash flows on intercompany foreign-currency denominated debt. An instantaneous ten percent decrease in foreign exchange rates at December 31, 2002 would have no material impact to the Company. We had no foreign currency derivatives at December 31, 2001.

Commodities Price Exposure. We market recycled waste paper products such as ONP and OCC from our material recovery facilities. We enter into financial fiber swaps to mitigate the variability in cash flows from a portion of these sales. Under these swap agreements, we pay a floating index price and receive a fixed price for a fixed period of time. We also enter into fiber swap agreements for trading purposes with the objective of generating profits from changes in market prices of waste paper and other paper products. We record changes in the fair value of these fiber swap agreements not designated as hedges immediately to earnings. All derivative transactions are subject to our risk management policy which governs the type of instruments that may be used and our risk exposure limits. An instantaneous ten percent increase in OCC and ONP prices at December 31, 2002 would decrease the fair value of our hedges by approximately \$11.2 million. This analysis excludes the underlying physical commodity sales positions that are being hedged. An instantaneous ten percent increase in prices at December 31, 2002 on our derivatives entered into for trading purposes would have no material impact on us.

At December 31, 2001, all, except two, of our fiber agreements were with Enron. Due to Enron's financial situation, collectibility of the funds associated with these instruments was not probable at December 31, 2001 and therefore these instruments were estimated to have no fair value. The derivatives with Enron were subsequently terminated in early 2002. The net fair value of the two derivatives with counterparties other than Enron at December 31, 2001 was not material.

See Notes 2, 7 and 10 to the consolidated financial statements for further discussion of the use of and accounting for derivative instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Waste Management, Inc.

We have audited the accompanying consolidated balance sheet of Waste Management, Inc. (the "Company") as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company as of December 31, 2001 and for each of the years in the two year period ended December 31, 2001 were audited by other auditors who have ceased operations and whose report dated February 25, 2002 expressed an unqualified opinion on those statements before the restatement adjustments and disclosures described below and in Notes 2, 6 and 15.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Waste Management, Inc. at December 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 6 to the consolidated financial statements, effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

As discussed above, the consolidated financial statements of the Company as of December 31, 2001, and for each of the years in the two year period ended December 31, 2001, were audited by other auditors who have ceased operations. However, the Company made certain adjustments and disclosures to prior years' financial statements to conform with the current year's presentation or to comply with adoption requirements of new accounting pronouncements, as follows:

- (i) As described in Note 2, the Company reclassified \$137 million of accrued interest payable from accounts payable to accrued liabilities in the 2001 consolidated balance sheet. We audited the adjustment that was applied to reclassify accrued interest payable in the 2001 consolidated balance sheet. Our procedures included (a) agreeing the amount of accrued interest payable to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the restatement of accrued interest payable within the consolidated financial statements.
- (ii) As described in Note 6, the 2001 and 2000 consolidated financial statements have been revised to include the transitional and other disclosures required by SFAS 142, which the Company adopted as of January 1, 2002. Our procedures with respect to the disclosures in Note 6 regarding 2001 and 2000 included (a) agreeing the previously reported net income (in total and the related earnings-per-share amounts) to the previously issued consolidated financial statements and the adjustments to amounts representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and negative goodwill as a result of initially applying SFAS 142 to the Company's underlying records obtained from management, (b) testing the mathematical accuracy of the reconciliation of adjusted net income to previously reported net income and the related earnings-per-share amounts. Additionally, our procedures with respect to the disclosures in Note 6 regarding 2001 included (a) agreeing the cost basis and accumulated amortization of customer contracts and customer lists, covenants not-to-compete and licenses, permits and other to the Company's underlying records obtained from management, (b) testing the mathematical accuracy of the reconciliation of other intangible assets,

net, to the 2001 consolidated balance sheet and (c) agreeing 2001 amortization expense for other intangible assets to the Company's underlying records obtained from management.

- (iii) As described in Note 15, the Company changed the composition of its reportable segments in 2002, and the amounts in the 2001 and 2000 consolidated financial statements relating to reportable segments have been restated to conform to the 2002 composition of reportable segments. We audited the adjustments that were applied to restate the disclosures for reportable segments reflected in the 2001 and 2000 consolidated financial statements. Our procedures included (a) agreeing the adjusted amounts of segment gross operating revenues, intercompany operating revenues, net operating revenues, income from operations, depreciation and amortization, capital expenditures and total assets to the Company's underlying records obtained from management, (b) testing the mathematical accuracy of the reconciliations of segment amounts to the consolidated financial statements, and (c) agreeing goodwill amortization expense to the Company's underlying records obtained from management.
- (iv) In the table presented in Note 5, the Company reclassified \$262 million from land to landfills in the December 31, 2001 Property and Equipment presentation. We audited the adjustment that was applied to reclassify this amount. Our procedures included (a) agreeing the amount of the restatement adjustment to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the restatement within the table in Note 5.

In our opinion, the adjustments and disclosures described in (i), (ii), (iii) and (iv) above are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of the Company other than with respect to such adjustments and disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

/s/ Ernst & Young LLP

Houston, Texas
February 14, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors of Waste Management, Inc.

We have audited the accompanying consolidated balance sheets of Waste Management, Inc., a Delaware corporation, and subsidiaries (the "Company"), as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waste Management, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
February 25, 2002

THIS IS A COPY OF THE AUDIT REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH WASTE MANAGEMENT, INC.'S FILING ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001. THIS AUDIT REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH THIS FILING ON FORM 10-K. SEE EXHIBIT 23.2 FOR FURTHER DISCUSSION.

WASTE MANAGEMENT, INC.

CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE AND PAR VALUE AMOUNTS)

DECEMBER 31, -----	2002	2001	-----
ASSETS			
Current assets: Cash and cash equivalents.....	\$ 264	\$ 730	
Accounts receivable, net of allowance for doubtful accounts of \$60 and \$73, respectively.....	1,379	1,355	
Notes and other receivables.....			
265 314 Parts and supplies.....	80	83	
Deferred income taxes.....			
551 426 Prepaid expenses and other assets.....	161	216	-----
Total current assets.....	2,700		
3,124 Property and equipment, net of accumulated depreciation and amortization of \$8,498 and \$7,578, respectively.....	10,612	10,357	
Goodwill.....			
5,079 4,998 Other intangible assets, net.....	105	123	
Other assets.....			
1,135 888 -----			Total
assets.....	\$19,631		
\$19,490 =====			LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities: Accounts payable.....			
	\$ 526	\$	
672 Accrued liabilities.....	2,002		
2,160 Deferred revenues.....	414	374	
Current portion of long-term debt.....			
231 515 -----			Total current
liabilities.....	3,173	3,721	Long-term
debt, less current portion.....	8,062		
7,709 Deferred income taxes.....	1,548	1,127	
Environmental liabilities.....			
884 825 Other liabilities.....	637		
703 -----			Total
liabilities.....	14,304	14,085	
-----			Minority interest in
subsidiaries.....	19	13	-----
-- Commitments and contingencies			
Stockholders' equity:			
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 630,282,461 and 630,331,591 shares issued, respectively.....			
	6	6	
Additional paid-in capital.....			
	4,513	4,523	Retained
earnings.....	1,873		
1,057 Accumulated other comprehensive income (loss).....	(179)	(148)	Restricted stock unearned
compensation.....	--	(2)	Treasury stock at
			cost, 35,682,000 and 2,313,883 shares,
			respectively.....
(905) (44) -----			Total stockholders'
equity.....	5,308	5,392	-----
Total liabilities and stockholders' equity.....	\$19,631		
\$19,490 =====			=====

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED DECEMBER 31, -----	2002	2001	2000	-----
Operating revenues.....				
\$11,142 \$11,322 \$12,492 -----				
Costs and expenses: Operating (exclusive of depreciation and amortization shown below).....	6,743			
6,666 7,538 Selling, general and administrative.....	1,529	1,622	1,738	
Depreciation and amortization.....	1,222	1,371		
1,429				
Restructuring.....				
38 -- -- Asset impairments and unusual items.....	(34)	380	749	
----- 9,498 10,039 11,454 -----				
Income from operations.....	1,644			
1,283 1,038 ----- Other income expense.....	(462)			
(541) (748) Interest income.....	21	37		
31 Minority interest.....	(7)	(5)		
(23) Other income, net.....	51	13	23	
----- (397) (496) (717) -----				
Income before income taxes.....	1,247	787	321	
Provision for income taxes.....	424	284	418	
----- Income (loss) before extraordinary item and cumulative effect of changes in accounting principle.....	823	503	(97)	
Extraordinary loss on refinancing or early retirement of debt, net of income tax benefit of \$2 and \$1 in 2002 and 2001, respectively.....	(3)			
(2) -- Cumulative effect of changes in accounting principle, net of income tax expense of \$0 and \$2 in 2002 and 2001, respectively.....				
2 2 -- ----- Net income (loss).....	\$ 822	\$ 503	\$ (97)	
===== ===== ===== Basic income (loss) per common share: Income (loss) before extraordinary item and cumulative effect of change in accounting principle.....	\$ 1.34	\$ 0.80	\$ (0.16)	
Extraordinary item.....				
----- Cumulative effect of changes in accounting principle.....				
----- Net income (loss).....	\$ 1.34	\$ 0.80	\$ (0.16)	
===== ===== ===== Diluted income (loss) per common share: Income (loss) before extraordinary item and cumulative effect of change in accounting principle.....	\$ 1.33	\$ 0.80	\$ (0.16)	
Extraordinary item.....				
----- Cumulative effect of changes in accounting principle.....				
----- Net income (loss).....	\$ 1.33	\$ 0.80	\$ (0.16)	
===== ===== ===== Cash dividends per common share.....	\$ 0.01	\$ 0.01	\$ 0.01	
===== ===== =====				

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

YEARS ENDED DECEMBER 31, -----	2002			
2001 2000 -----				
				Cash flows from
				operating activities: Net income
(loss).....	\$ 822	\$		
503 \$ (97) Adjustments to reconcile net income (loss) to				net cash provided by operating activities: Provision for
bad debts.....	42	20	14	
Depreciation and amortization.....				
1,222 1,371 1,429 Deferred income tax				
provision.....	319	131	65	Minority
interest in subsidiaries.....	7	5	23	
Net gain on disposal of assets.....				
(56) (18) (4) Effect of asset impairments and unusual				
items.....	(34)	380	749	Change in operating assets
and liabilities, net of effects of acquisitions and				divestitures:
Receivables.....				
43 34 283 Prepaid expenses and other current				
assets.....	(2)	2	21	Other
assets.....				120
34 5 Accounts payable and accrued				
liabilities.....	(359)	(87)	(301)	Deferred
revenues and other liabilities.....	29	(20)		
(60) Other,				
net.....	--	--	--	
(2) -----				Net cash provided by
operating activities.....	2,153	2,355	2,125	
-----				Cash flows from investing
				activities: Short-term
investments.....	--	--	54	
Acquisitions of businesses, net of cash				
acquired.....	(162)	(116)	(231)	Capital
expenditures.....				
(1,287) (1,328) (1,313) Proceeds from divestitures of				
businesses, net of cash divested, and other sales of				
assets.....	175	58	2,552	Receipts net,
from restricted funds.....	273	138	(25)	
Other.....				
39 16 35 -----				Net cash provided by
(used in) investing activities.....	(962)	(1,232)		
1,072 -----				Cash flows from financing
				activities: New
borrowings.....				
894 1,628 304 Debt				
repayments.....				
(1,591) (2,138) (3,597) Common stock				
repurchases.....	(982)	--	--	
				Cash
dividends.....	(6)		(6)	
(6) (6) Exercise of common stock options and				
warrants.....	27	50	20	
Other.....				
-- (19) -- -----				Net cash used in
financing activities.....	(1,658)	(485)		
(3,279) -----				Effect of exchange rate
				changes on cash and cash
equivalents.....				
1 (2) (5) -----				Increase (decrease) in
cash and cash equivalents.....	(466)	636	(87)	Cash
and cash equivalents at beginning of year.....				
730 94 181 -----				Cash and cash
equivalents at end of year.....	\$ 264	\$		
730 \$ 94 =====				Supplemental cash flow
information: Cash paid during the year for: Interest, net				
of capitalized interest and periodic settlements from				
interest rate swap agreements.....	\$ 490	\$ 563	\$ 750	
Income taxes.....				
201 47 135				

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN MILLIONS, EXCEPT SHARES IN THOUSANDS)

ACCUMULATED OTHER RESTRICTED COMMON STOCK						
ADDITIONAL COMPREHENSIVE STOCK -----						
----- PAID-IN RETAINED INCOME UNEARNED						
SHARES AMOUNTS CAPITAL EARNINGS (LOSS)						
COMPENSATION -----						
----- Balance,						
January 31, 2000.....						
627,284 \$ 6 \$4,440 \$ 663 \$(563) \$(4) Net						
loss.....	--	--	--	--	--	--
dividends.....	--	--	(97)	--	--	Cash
-----	--	--		--	--	
dividends.....	--	--	(6)	--	--	Common stock issued upon
exercise of stock options and warrants, and						grants of restricted stock, including tax
benefit of						
\$3.....						
166 -- 4 -- -- (1) Earned compensation						
related to restricted						
stock.....	--	--	--	--	--	
-----	--	--	--	--	--	
2 Common stock issued						
(purchased) in connection with litigation						
settlements.... 1,364 -- 22 -- --						
Adjustment of employee stock benefit trust						
to market value.....	--	--	14	--	--	Minimum pension liability
adjustment, net of taxes of						
\$92.....	--	--		--	--	
-----	--	--		--	--	
130 -- Translation adjustment of foreign						
currency statements including effects of						
divestitures.....	--	--	--	--	--	307 -- Termination of employee
stock benefit						
trust.....	--	--		--	--	
-----	--	--		--	--	
Other.....						
808 -- 17 -- --						

Balance, December 31,						
2000.....			629,622	\$ 6	\$4,497	
\$ 560 \$(126) \$(3) -----						

Net						
income.....	--	--		--	--	
-----	--	--		--	--	
503 -- -- Cash						
dividends.....	--	--		--	--	
-----	--	--		--	--	
(6) -- -- Common stock issued upon						
exercise of stock options and warrants,						
including tax benefit of						
\$15.....	--	--	3	--	--	
-----	--	--		--	--	
Common stock issued in connection						
with litigation						
settlements..... 289 -- 13 --						
-----	--	--		--	--	
Earned compensation related to						
restricted						
stock.....	--	--		--	--	
-----	--	--		--	--	
1 Minimum pension liability						
adjustment, net of taxes of						
\$1.....	--	--		--	--	
-----	--	--		--	--	
2 -- Unrealized gain resulting from						
changes in fair values of derivative						
instruments, net of taxes of						
\$4.....	--	--		--	--	
-----	--	--		--	--	
5 -- Gains on derivative instruments						
reclassified into earnings, including tax						
benefit of						
\$3.....	--	--		--	--	
-----	--	--		--	--	
(4) -- Unrealized gain on						
marketable securities, net of taxes of						
\$4.....	--	--		--	--	
-----	--	--		--	--	
6 --						
Translation adjustment of foreign currency						
statements.....	--	--	(31)	--	--	
-----	--	--		--	--	
Other.....						
421 -- 10 -- --						

Balance, December 31,						

2001.....	630,332	\$ 6	\$4,523
\$1,057 \$(148) \$(2) -----			

	Net		
income.....			
	822		Cash
dividends.....			
	(6)		Common stock issued upon
			exercise of stock options and warrants,
			including tax benefit of
\$7.....		(7)	
			Common stock issued in connection
			with litigation
settlements.....		(2)	
			Common stock
repurchases.....			
			Earned compensation related to
			restricted
stock.....			
	(38)	(1)	2 Unrealized loss
			resulting from changes in fair values of
			derivative instruments, net of tax benefit
			of \$27.....
			(42) Gains on derivative instruments
			reclassified into earnings, net of taxes of
			\$1.....
			2 Unrealized
			loss on marketable securities, including
			tax benefit of \$4.....
			(6) Translation adjustment of foreign
			currency
statements.....			
			15
Other.....			
(12) -----			
			Balance, December 31,
2002.....	630,282	\$ 6	\$4,513
\$1,873 \$(179) \$- =====			=====
			=====
			=====
EMPLOYEE TREASURY STOCK STOCK COMPREHENSIVE			
----- BENEFIT INCOME SHARES			
AMOUNT TRUST (LOSS) -----			

			Balance, January 31,
2000.....	(74)	\$ (4)	\$(136)
			Net
loss.....			
			(\$97) Cash
dividends.....			
			Common stock issued upon exercise of
			stock options and warrants, and grants of
			restricted stock, including tax benefit of
			\$3.....
1,078 22			Earned compensation related to
			restricted
stock.....			
			Common stock issued (purchased) in
			connection with litigation settlements....
	(83)	(1)	Adjustment of employee stock
			benefit trust to market
value.....			(14)
			Minimum pension liability adjustment, net
			of taxes of
\$92.....			
			130 Translation adjustment of foreign
			currency statements including effects of
			divestitures.....
			307 Termination of employee stock
			benefit
trust.....			
	(7,893)	(150)	150
Other.....			
			Balance,
			December 31, 2000.....
(6,972) \$(133) \$ -- \$340 -----			-----
			Net
income.....			
			\$503 Cash
dividends.....			
			Common stock issued upon exercise of
			stock options and warrants, including tax
			benefit of \$15.....
			3,317 63 Common stock issued in
			connection with litigation

settlements.....	785	15	--
Earned compensation related to restricted stock.....			
-- -- -- Minimum pension liability adjustment, net of taxes of \$1.....			-- -- --
2 Unrealized gain resulting from changes in fair values of derivative instruments, net of taxes of \$4.....			
-- -- -- 5 Gains on derivative instruments reclassified into earnings, including tax benefit of \$3.....			-- -- --
-- -- -- (4) Unrealized gain on marketable securities, net of taxes of \$4.....			-- -- -- 6
Translation adjustment of foreign currency statements.....			
-- -- -- (31)			
Other.....			
556 11 -- ----- Balance, December 31, 2001.....			
(2,314) \$ (44) \$ -- \$481 -----			
- ===== Net			
income.....			--
-- -- \$822 Cash			
dividends.....			--
-- -- Common stock issued upon exercise of stock options and warrants, including tax benefit of \$7.....			
1,719 41 -- Common stock issued in connection with litigation			
settlements.....	2,663	68	--
Common stock			
repurchases.....	(38,250)		
(982) -- Earned compensation related to restricted			
stock.....			
-- -- -- Unrealized loss resulting from changes in fair values of derivative instruments, net of tax benefit of \$27.....			-- -- -- (42)
Gains on derivative instruments reclassified into earnings, net of taxes of \$1.....			-- -- -- 2 Unrealized loss on marketable securities, including tax benefit of \$4.....
-- -- -- (6)			
Translation adjustment of foreign currency statements.....			
-- -- -- 15			
Other.....			
500 12 -- ----- Balance, December 31, 2002.....			
(35,682) \$(905) \$ -- \$791 =====			
=====			

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

1. BUSINESS

Waste Management, Inc., a Delaware corporation, and subsidiaries ("Waste Management" or the "Company") is its industry's leading provider of integrated waste services in North America. Through its subsidiaries, the Company provides collection, transfer, recycling and resource recovery, and disposal services. The Company is also a leading developer, operator and owner of waste-to-energy facilities in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation -- The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries after elimination of all material intercompany balances and transactions. Investments in affiliated companies in which the Company has a controlling interest are consolidated for financial reporting purposes. Investments in affiliated entities in which the Company does not have a controlling interest are accounted for under either the equity method or cost method of accounting, as appropriate. These investments are regularly reviewed for impairment issues and propriety of current accounting treatment.

Reclassifications -- Certain reclassifications have been made to the prior year balance sheet to conform to the current year presentation. In the Company's Annual Report on Form 10-K for the year ended December 31, 2001, the Company reported accrued interest of \$137 million as a component of accounts payable. In 2002, the Company started reporting accrued interest as a component of accrued liabilities instead of accounts payable. In order to conform the prior period presentation of accrued interest to the current period presentation, the Company has reclassified the \$137 million of accrued interest at December 31, 2001 to accrued liabilities in the consolidated balance sheet presented elsewhere herein.

Cash and cash equivalents -- Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper purchased with original maturities of three months or less.

Concentrations of credit risk -- Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions and limits the amount of credit exposure with any one institution. Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers comprise the Company's customer base, thus spreading the trade credit risk. At December 31, 2002 and 2001, no single group or customer represented greater than 5% of total accounts receivable. The Company controls credit risk through credit evaluations, credit limits, and monitoring procedures. The Company performs credit evaluations for commercial and industrial customers and performs ongoing credit evaluations of its customers, but generally does not require collateral to support accounts receivable. Credit losses are provided for in the financial statements. Credit risk relating to derivative instruments results from the fact the Company enters into interest rate and commodity price swap agreements with various counterparties. However, the Company monitors its derivative positions by regularly evaluating its positions and the credit worthiness of the counterparties, all of whom the Company considers credit worthy, or who have issued letters of credit to support their performance. See Note 10 for discussion related to the previously outstanding waste paper swap agreements with Enron North America Corp. ("Enron").

Trade, notes and other receivables -- The Company's receivables are recorded when billed, advanced or accrued and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company estimates its allowance for doubtful accounts based on historical collection trends, type

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of customer such as municipal or non-municipal, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written-off when the Company's internal collection efforts have been unsuccessful in collecting the amount due. Also, the Company generally recognizes interest income on long-term interest-bearing notes receivable as the interest accrues under the terms of the note.

Operations held-for-sale -- On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"). That statement requires that assets held-for-sale be recorded at the lower of their carrying amount or their fair value less cost to sell. Held-for-sale assets are not depreciated. Assets are classified as held-for-sale only if (i) management commits to a plan to sell the asset, (ii) the asset is available for immediate sale, (iii) the asset is actively being marketed for sale at a price that is reasonable in relation to its current fair value and (iv) management believes the sale of the asset is probable and expects transfer within one year. See Note 22 for further discussion of operations held-for-sale.

Property and equipment -- Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized. Except for the Company's waste-to-energy facilities and independent power production plants ("IPPs"), minor replacements, maintenance and repairs are charged to expense as incurred.

At the Company's waste-to-energy facilities and IPPs, the Company accrues for major repair and maintenance expenditures. Such accruals are based upon planned maintenance expenditures and are classified as current or non-current liabilities based on the expected timing of the expenditures. In the first quarter of 2003, the Company changed its method of accounting to one that expenses these costs as incurred. See Note 25 for further discussion.

When property and equipment are retired, sold, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations as increases or offsets to operating expense for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The Company assumes no salvage value for its depreciable property and equipment. The estimated useful lives for significant property and equipment categories are as follows (in years):

USEFUL LIVES -----	Office
equipment.....	3 to 7
Vehicles.....	3 to 10
equipment.....	Machinery and Commercial and roll-off
containers.....	8 to 12
cars.....	Rail haul 10 to 20
improvements.....	Buildings and 5 to 40
facilities.....	Waste-to-energy up to 50

The Company capitalizes certain costs associated with developing or obtaining internal-use software. These costs include external direct costs of materials and services used in developing or obtaining the software and payroll and payroll-related costs for employees directly associated with the software development project. For the years ended December 31, 2002 and 2001, the Company capitalized \$110 million and \$63 million, respectively, of software development costs that are primarily related to the development of the Company's enterprise-wide software systems. The Company includes these costs as office equipment within furniture and fixtures and depreciates the software development costs over a period up to five years once the systems are placed in service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Leases -- The Company leases certain office space and plant and equipment for varying periods. The Company's leases have varying terms. Some may include renewal or purchase options, escalation clauses, restrictions, penalties or other obligations that we consider in determining minimum lease payments disclosed in Note 20. The leases are classified as either capital leases or operating leases, as appropriate.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease and are amortized over the shorter of either the useful life of the asset in accordance with the Company's policy for owned assets or the lease term on a straight line basis. The present value of the related lease payment is recorded as a debt obligation. The Company's future minimum annual capital lease payments are included in the Company's total future debt obligations as disclosed in Note 7.

Management expects that in the normal course of business, operating leases will be renewed or replaced by other leases. See Note 20 for the Company's future contractual operating lease payments.

Landfill accounting -- The discussion below details the Company's accounting policies for landfills through December 31, 2002. As of January 1, 2003, the Company's practice will change upon the Company's adoption of SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"). See Note 25 for additional information.

The Company utilizes the life cycle method of accounting for landfill costs. Landfill site costs that qualify for capitalization are recorded at cost. Capitalized landfill site costs, net of recorded amortization, are added to estimated projected capitalizable costs to be incurred over the remaining life of the landfill, to determine the amount to be amortized over the remaining capacity of a site as discussed below. Amortization is recorded on a units of consumption basis, applying cost as a rate per ton over the remaining capacity of a site. Landfill site costs are amortized to expected net realizable value upon closure of a landfill. See Note 3 for discussion on landfill related estimates.

The Company has material financial commitments for the costs associated with its future obligations for closure and post-closure obligations with respect to the landfills it owns or operates as prescribed by the EPA's Subtitles C and D regulations. The difference between the present value of a landfill's estimated total closure and post-closure costs and amounts accrued to date is accrued prospectively on a units of consumption basis by applying a rate per ton over the remaining capacity of the landfill. The present value of closure and post-closure costs is fully accrued for each landfill once the site discontinues accepting waste and is included in environmental liabilities.

The remaining capacity of a landfill is determined by the unused permitted airspace and expansion airspace when the success of obtaining an expansion permit is probable. Remaining capacity is estimated in cubic yards and converted to tons using a landfill-specific airspace utilization factor. These factors are developed by Company engineers and are reviewed by management, typically at least once per year.

To include airspace associated with an expansion effort in remaining capacity, the Company must generally expect the expansion permit application to be submitted within one year, and the expansion permit to be received within five years. Also, the Company must believe the success of obtaining the expansion permit is probable, using the following criteria:

- Personnel are actively working to obtain land use and local and state approvals for an expansion of an existing landfill;
- At the time the expansion is added to the permitted site life, it is probable that the approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
- Either the Company or the respective landfill owners have a legal right to use or obtain land to be included in the expansion plan;

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- There are no significant known technical, legal, community, business, or political restrictions or similar issues that could impair the success of such expansion;
- Financial analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact; and
- Airspace and related costs, including additional closure and post-closure costs, have been estimated based on conceptual design.

These criteria are initially evaluated by the Company's field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. However, the Company's policy provides that, based on the facts and circumstances of a specific landfill, if these criteria are not met, inclusion of unpermitted airspace may still be allowed. In these circumstances, inclusion must be approved through a landfill-specific process that includes approval of the Chief Financial Officer and a review by the Audit Committee of the Board of Directors on a quarterly basis. Of the 91 landfill sites with expansions at December 31, 2002, 26 landfills required the Chief Financial Officer to approve the inclusion of the unpermitted airspace. Approximately two-thirds of these landfills required approval by the Chief Financial Officer because of legal or community issues that could impede the expansion process, while the remaining were primarily due to permit application processes beyond the one-year limit, which in most cases were due to state-specific permitting procedures. When expansion airspace is included in the calculation of available airspace, the projected costs for development and final capping of the expansion are included in the amortization base of the landfill, and the projected costs for closure and post-closure of the expansion are considered in determining closure and post-closure expense. See Note 3 for further discussion on related estimates and assumptions.

After determining the costs at its landfills, including closure and post-closure costs, and the remaining capacity, the Company then determines the per ton rate that will be expensed. Factors considered include the waste stream, geography and rate of compaction, among others, to determine the number of tons it will take to fill the remaining capacity. The determined costs are then divided by that number of tons, giving the Company the rate per ton to expense.

Business combinations -- All acquisitions since January 1, 2000 have been accounted for using the purchase method of accounting. The Company allocates the cost of the acquired business to the assets acquired and the liabilities assumed based on estimates of fair values thereof. These estimates are revised during the allocation period as necessary if, and when, information regarding contingencies becomes available to further define and quantify assets acquired and liabilities assumed. The allocation period generally does not exceed one year. To the extent contingencies such as preacquisition environmental matters, litigation and related legal fees are resolved or settled during the allocation period, such items are included in the revised allocation of the purchase price. After the allocation period, the effect of changes in such contingencies is included in results of operations in the periods in which the adjustments are determined. The Company does not believe potential differences between its fair value estimates and actual fair values are material.

In certain business combinations, the Company agrees to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain negotiated goals, such as targeted revenue levels, targeted disposal volumes or the issuance of permits for expanded landfill airspace. Contingent payments, when incurred, are recorded as purchase price adjustments or compensation expense, as appropriate, based on the nature of each contingent payment.

Goodwill and other intangible assets -- Goodwill is the excess of cost over net assets of acquired businesses. In accordance with SFAS No. 142, Accounting for Goodwill and Other Intangible Assets ("SFAS No. 142"), the Company did not amortize goodwill that arose from purchases after June 30, 2001. In addition, the Company continued through December 31, 2001 the amortization of goodwill which arose from purchase business combinations completed prior to or on June 30, 2001. All amortization of goodwill ceased

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

January 1, 2002. Other intangible assets consist primarily of customer contracts, customer lists, covenants not-to-compete, licenses and permits (other than landfill permits, as all landfill related intangible assets are combined with landfill tangible assets and amortized using the Company's landfill amortization policy). Other intangible assets are recorded at cost and amortized on a straight-line basis. Customer contracts and customer lists are generally amortized over five to seven years. Covenants not-to-compete are amortized over the term of the agreement, which is generally three to five years. Licenses, permits and other contracts are amortized over the definitive terms of the related agreements. If the underlying agreement does not contain definitive terms and the useful life is determined to be indefinite, the asset is not amortized. As of December 31, 2002, the Company has approximately \$3 million of other intangible assets that are not amortized. For further discussion, see Note 6.

Restricted funds held by trustees -- Restricted funds held by trustees are included in other non-current assets and consist principally of funds held in trust for the construction of various facilities, funds deposited in connection with landfill closure and post-closure obligations and insurance escrow deposits. Of the restricted funds balance of \$533 million at December 31, 2002, \$412 million relates to industrial revenue bonds issued primarily for the construction of various facilities. Proceeds from these financing arrangements are directly deposited into trust funds, and the Company does not have the ability to utilize the funds in regular operating activities. Accordingly, these amounts are reported as an investing activity when the cash is released from the trust funds and as a financing activity when the industrial revenue bonds are repaid out of the Company's cash balances. In 2002, proceeds from tax-exempt borrowings, net of principal payments made directly from trust funds were \$424 million. These transactions were treated as non-cash financing activities for purposes of the statement of cash flows.

Asset impairments -- Long-lived assets consist primarily of property, plant and equipment, goodwill and other intangible assets. Property, plant, equipment and other intangible assets are carried on the Company's financial statements based on their cost less accumulated depreciation or amortization. The recoverability of these assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Typical indicators that an asset may be impaired include:

- A significant decrease in the market price of an asset or asset group;
- A significant adverse change in the extent or manner in which an asset or asset group is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of an asset or asset group, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- Current period operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or
- A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If any of these or other indicators occur, the asset is reviewed to determine whether there has been an impairment. An impairment loss is recorded as the difference between the carrying amount and fair value of the asset. See Note 3 for further discussion on related estimates and assumptions. There are other considerations for impairments of landfills and goodwill, as described below.

Landfills -- There are certain indicators listed above that require significant judgment and understanding of the waste industry when applied to landfill development or expansion projects. For example, a regulator may

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

initially deny a landfill expansion permit application though the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace. Therefore, certain events could occur in the ordinary course of business and not necessarily be considered indicators of impairment due to the unique nature of the waste industry.

Goodwill -- The Company assesses whether goodwill is impaired on an annual basis. Upon determining the existence of goodwill impairment, the Company measures that impairment based on the amount by which the book value of goodwill exceeds its implied fair value. The implied fair value of goodwill is determined by deducting the fair value of a reporting unit's identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if that reporting unit had just been acquired and the purchase price were being initially allocated. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances, such as those listed above, that would indicate that, more likely than not, the book value of goodwill has been impaired.

Income taxes -- Deferred income taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Foreign currency -- The functional currency of the Company's foreign operations is the local currency of the country in which the Company operates. Adjustments resulting from the translation of financial information are included in comprehensive income.

Revenue recognition -- The Company recognizes revenues when all four criteria noted below have been satisfied:

- Persuasive evidence of an arrangement exists, such as executed service agreements, new customer account forms or other relevant documentation.
- Services, such as providing hauling services and accepting waste at the Company's disposal facilities, are rendered or products are delivered.
- The Company's price to the buyer is fixed or determinable.
- Collectibility is reasonably assured.

The Company bills for certain services prior to performance. Such services include, among others, certain residential contracts that are billed on a quarterly basis and rights to utilize assets such as containers or other equipment rentals continuously over time. These advance billings are included in deferred revenues and recognized as revenue in the period earned for services provided.

Loss contracts -- The Company reviews its revenue-producing contracts in the ordinary course of business to determine if the direct costs, exclusive of any non-variable costs, to service the contractual arrangements exceed the revenues to be produced by the contract. Any resulting net loss over the life of the contract is expensed at the time of such determination. During the life of a contract that is deemed to be a loss contract, the Company may estimate intermittent periods of contract profitability. Intermittent profitability projected or realized on loss contracts is deferred to offset future projected losses. In 2002, the Company reduced expenses by approximately \$26 million through the utilization of the accrual to offset actual losses. The Company also increased loss contract reserves by approximately \$15 million as additional operating expenses for projected future losses on contracts.

In the first quarter of 2003, the Company changed its method of accounting to one that expenses losses on contracts as they are incurred. See Note 25 for further discussion.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Self-insurance property and casualty -- The Company has retained a portion of the risks related to its automobile, general liability and workers' compensation insurance programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, is determined by external actuaries. The related liability is included in accrued liabilities if expected to be settled within one year or otherwise is included in other long term liabilities.

Derivative financial instruments -- SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS No. 133"), became effective for the Company on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that all derivative instruments, including certain derivative instruments embedded in other contracts, be recorded as either assets or liabilities measured at fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Adoption of SFAS No. 133 resulted in a gain, net of tax, of approximately \$2 million in the first quarter of 2001, which is reflected as a cumulative effect of change in accounting principle. See further discussion at Note 7 and Note 10.

The Company utilizes derivative financial instruments to manage its foreign currency, interest rate and commodity pricing exposure. The estimated fair values of derivatives used to hedge risks fluctuate over time. These changes in fair values should be viewed in relation to the underlying hedging transaction and to the overall management of the Company's exposure to fluctuations in foreign exchange rates, interest rates and commodity prices.

The fair value of derivatives is included in other current assets, other long-term assets, accrued liabilities or other long-term liabilities, as appropriate. The offsetting amounts for those derivatives designated as fair value hedges are recorded as an adjustment to the carrying value of the hedged instrument. Upon termination, this carrying value adjustment is amortized to earnings over the remaining life of the hedged instrument. The offsetting amounts for those derivatives designated as cash flow hedges are recorded in other comprehensive income. Upon termination, the associated balance in other comprehensive income is amortized to earnings as the hedged cash flows occur. Any ineffectiveness present in either fair value or cash flow hedges is recognized immediately in earnings without offset.

Capitalized interest -- Interest is capitalized on certain projects under development, including landfill projects and probable landfill expansion projects, and on certain assets under construction, including internal-use softwares, operating landfills and waste-to-energy facilities. The capitalization of interest for operating landfills is based on the costs incurred on discrete cell construction projects, plus an allocated portion of the common site costs. The common site costs include the development costs of a landfill project or the purchase price of an operating landfill, and the ongoing infrastructure costs benefiting the lifecycle of the landfill. Cell construction costs include the construction of cell liners and final capping during the operating life of the site. During 2002, 2001 and 2000, total interest costs were \$482 million, \$557 million and \$770 million, respectively, of which \$20 million, \$16 million and \$22 million, respectively, were capitalized primarily for landfill construction costs.

Accounting for stock options -- The Company accounts for its stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and Financial Accounting Standards Board ("FASB") Interpretation No. 44 ("FIN 44"). The Company makes disclosures regarding its stock-based compensation in accordance with SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"). In accordance with APB 25, the Company does not recognize compensation cost for stock options granted to employees as all employee options are granted with an exercise price equal to the fair market value of the underlying stock.

As of December 31, 2002, 2001, and 2000, the Company had approximately 44.5 million, 41.5 million and 40.3 million stock options and warrants outstanding, respectively. The weighted average fair value per

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

share of stock options granted during 2002, 2001 and 2000 was \$12.16, \$10.83 and \$6.78, respectively. See Note 12 for further discussion on the Company's common stock options and warrants.

The fair value of each common stock option granted to employees or directors during 2002, 2001 and 2000 was estimated utilizing the Black-Scholes option pricing model. The following weighted average assumptions were used: dividend yield of 0%, risk-free interest rates which vary for each grant and range from 2.91% to 6.19%, expected life of four to seven years for all grants, and stock price volatility primarily ranging from 23.7% to 50.4%. Black-Scholes is a formula that calculates an estimated value of stock options based on appreciation and interest rate assumptions and therefore, the fair value calculation of a stock option using Black-Scholes is not necessarily indicative of the actual value of a stock option.

The following schedule reflects the impact on net income and earning per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation (in millions, except per share amounts).

YEARS ENDED DECEMBER 31, -----	-----	-----	-----	-----
-----	2002	2001	2000	-----
- -----				Reported net income
(loss).....	\$ 822	\$ 503	\$ (97)	Less: compensation expense per SFAS No. 123, net of tax..... 85 83 75 -----
				Pro forma net income
(loss).....	\$ 737	\$ 420	\$ (172)	=====
				BASIC EARNINGS PER COMMON SHARE:
				Reported net income
(loss).....	\$1.34	\$0.80	\$(0.16)	Less: compensation expense per SFAS No. 123, net of tax..... 0.14 0.13 0.12 -----
				--- Pro forma net income
(loss).....	\$1.20	\$0.67	\$(0.28)	=====
				DILUTED EARNINGS PER COMMON SHARE:
				Reported net income
(loss).....	\$1.33	\$0.80	\$(0.16)	Less: compensation expense per SFAS No. 123, net of tax..... 0.14 0.13 0.12 -----
				--- Pro forma net income
(loss).....	\$1.19	\$0.67	\$(0.28)	=====

3. USE OF ESTIMATES AND ASSUMPTIONS

In preparing the Company's financial statements, several estimates and assumptions are made that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made because certain of the information that is used in the preparation of the Company's financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is simply not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment. The most difficult, subjective and complex estimates and the assumptions that deal with the greatest amount of uncertainty are related to the Company's accounting for landfills, environmental liabilities and asset impairments, as described below.

The discussion below details the Company's accounting policies for landfills through December 31, 2002. As of January 1, 2003, the Company's practice will change upon the Company's adoption of SFAS No. 143. See Note 25 for additional information.

Accounting for Landfills -- The Company utilizes the life cycle method of accounting for landfill costs and the units of consumption method to amortize landfill construction costs and record closure and post-closure obligations over the estimated remaining capacity of a landfill. Under this method the Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

includes future estimated construction costs, as well as costs incurred to date, in the amortization base. Additionally, the Company includes probable expansion airspace (yet to be permitted airspace) in the calculation of the total remaining capacity of the landfill. See Note 2 for further discussion.

This accounting method requires the Company to make estimates and assumptions, as described below. Any changes in the Company's estimates will impact the Company's income from operations prospectively from the date changes are made.

Landfill Costs -- The Company estimates the total cost to develop each landfill site to its final capacity. This includes certain projected landfill site costs that are uncertain because they are dependent on future events. The total cost to develop a site to its final capacity includes amounts previously expended and capitalized, net of accumulated airspace amortization, and projections of future purchase and development costs, landfill final capping costs, liner construction costs, operating construction costs, and capitalized interest costs.

Closure and Post-Closure Costs -- The costs for closure and post-closure obligations at landfills the Company owns or operates are generally estimated based on interpretations of current requirements and proposed or anticipated regulatory changes. The estimates for landfill closure and post-closure costs also consider when the costs would actually be paid and factor in, where appropriate, inflation and discount rates. The possibility of changing legal and regulatory requirements and the forward-looking nature of these types of costs make any estimation or assumption less certain.

Available Airspace -- The Company's engineers determine the remaining capacity at landfills by estimating the available airspace. This is done by using surveys and other methods to calculate, based on height restrictions and other factors, how much airspace is left to fill and how much waste can be disposed of at a landfill before it has reached its final capacity.

Expansion Airspace -- The Company will also consider currently unpermitted airspace in the estimate of remaining capacity in certain circumstances.

It is possible that the Company's estimates or assumptions will ultimately turn out to be significantly different from actual results. In some cases the Company may be unsuccessful in obtaining an expansion permit or the Company may determine that an expansion permit that the Company previously thought was probable has become unlikely. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, or the belief that the Company will receive an expansion permit changes adversely in a significant manner, the costs of the landfill, including the costs incurred in the pursuit of the expansion, may be subject to impairment testing, as described below, and lower profitability may be experienced due to higher amortization rates, higher closure and post-closure rates, and higher expenses or asset impairments related to the removal of previously included expansion airspace.

Environmental Remediation Liabilities -- Under current laws and regulations, the Company may have liability for environmental damage caused by operations, or for damage caused by conditions that existed before a particular site was acquired. Remedial costs are all costs relating to the remedy of any identified situation that occurs by natural causes or human error not expected in the normal course of business. These costs include costs relating to legal defense, potentially responsible party ("PRP") investigation, settlement, and consultant fees, as well as costs directly associated with site investigation and clean up, such as materials and incremental internal costs directly related to the remedy. Costs required to remediate sites where liability is probable based on site-specific facts and circumstances are estimated. The Company routinely reviews and evaluates sites that require remediation, including sites listed on the EPA's National Priorities List ("NPL sites"). Consideration is given to whether the Company was an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years the Company was connected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

with the site. Next, the same information with respect to other named and unnamed PRPs is reviewed. The cost for the likely remedy is then estimated based on:

- Management's judgment and experience in remediating Company and unrelated parties' sites;
- Information available from regulatory agencies as to costs of remediation;
- The number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site; and
- The typical allocation of costs among PRPs.

See Note 8 for further discussion.

Asset Impairments -- Accounting standards require that assets be written down if they become impaired. If significant events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, a test of recoverability is performed by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If the carrying values are in excess of undiscounted expected future cash flows, impairment is measured by comparing the fair value of the asset to its carrying value. Fair value is determined by either an actual third-party evaluation or an internally developed discounted projected cash flow analysis of the asset. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether an impairment has occurred for the group of assets for which the projected cash flows can be identified. If the fair value of an asset is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs. Several impairment indicators are beyond the Company's control, and cannot be predicted with any certainty whether or not they will occur. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Also, there are other considerations for impairments of landfills and goodwill as discussed in Note 2. Also see Note 16 for further discussion.

Other -- Other estimates and assumptions that the Company considers to be significant in the preparation of its financial statements include the following:

- Allowance for Doubtful Accounts -- The Company estimates losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable.
- Acquisition Accounting -- The Company estimates the fair value of assets and liabilities when allocating the purchase price of an acquisition.
- Derivative Financial Instruments -- In order to estimate the fair market value of derivative financial instruments to be recorded on the balance sheet, the Company estimates future prices of commodity fiber products and obtains current valuations of interest rate and foreign currency hedging instruments from third parties.
- Income Taxes -- The Company assumes the deductibility of certain costs in its income tax filings and estimates the future recovery of deferred tax assets.
- Contingent Liabilities -- The Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments in accordance with SFAS No. 5, Accounting for Contingencies, ("SFAS No. 5").
- Loss Contracts -- The Company evaluates its revenue-producing contracts to determine whether the projected revenues of such contracts exceed the direct costs to service such contracts. These evaluations include estimates of future revenues and expenses. Accruals for loss contracts are adjusted upward or downward based on these evaluations. In the first quarter of 2003, the Company changed

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

from this accounting method to one that recognizes losses on contracts as they are incurred. See Note 25 for further discussion.

- Self-Insurance Reserves -- Through the use of actuarial calculations, the Company estimates the amounts required to settle asserted and unasserted insurance claims.
- Facility Maintenance Accruals -- The Company accrues for major repair and maintenance expenditures at its waste-to-energy and IPP facilities. Such accruals, which include only anticipated third party costs, are based upon planned maintenance expenditures and are classified as current or noncurrent liabilities based on the expected timing of the expenditures. In the first quarter of 2003, the Company changed from this accounting method to one that expenses major repair and maintenance expenditures at its waste-to-energy and IPP facilities as incurred. See Note 25 for further discussion.

Actual results could differ materially from the estimates and assumptions that the Company uses in the preparation of its financial statements.

4. BUSINESS COMBINATIONS AND DIVESTITURES

PURCHASE ACQUISITIONS

In both 2002 and 2001, the Company consummated over 50 acquisitions of North American Solid Waste ("NASW") operations that were accounted for under the purchase method of accounting. Cash paid for acquisitions, net of cash acquired, was approximately \$162 million and \$116 million for 2002 and 2001, respectively. As a result of 2002 acquisitions, the Company recorded approximately \$183 million in additional assets, including \$81 million of goodwill, approximately \$17 million of other intangible assets, and \$21 million in additional liabilities. See Note 15 for information regarding goodwill acquired by each reportable segment as a result of 2002 purchase acquisitions.

DIVESTITURES

The approximate aggregate sales prices for divestitures of the Company's non-integrated North American operations in 2002 and 2001 was \$103 million and \$23 million, respectively, which was comprised substantially of cash proceeds. As a result of divestitures during 2002, the Company recorded a reduction in net assets of approximately \$80 million.

2007
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\$32
\$24
\$14
\$9
\$6

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Amortization expense for goodwill and other intangible assets was \$193 million and \$219 million for 2001 and 2000, respectively. In accordance with SFAS No. 142, the Company did not amortize goodwill that arose from purchases of businesses after June 30, 2001. The Company continued, through December 31, 2001, the amortization of goodwill that was recorded prior to July 1, 2001. Amortization of goodwill ceased on January 1, 2002.

The Company incurred no impairment of goodwill upon its initial adoption of SFAS No. 142, or as a result of its annual goodwill impairment test. However, there can be no assurance that goodwill will not be impaired at any time in the future. Additionally, adopting SFAS No. 141, Accounting for Business Combinations, ("SFAS No. 141") required the Company to write-off net negative goodwill of approximately \$2 million, which was recorded as a credit to cumulative effect of change in accounting principle in the first quarter of 2002. During interim periods in 2002, the Company did not encounter any events or changes in circumstances that indicated that impairment was more likely than not.

The following schedule reflects the 2001 and 2000 adjusted net income (excluding goodwill and negative goodwill amortization) as compared to the results of operations for December 31, 2002 (in millions, except per share amounts).

YEARS ENDED DECEMBER 31, -----	-----	-----	-----
----- 2002 2001 2000 -----	-----	-----	-----
Reported net income			
(loss).....	\$ 822		
\$ 503 \$ (97) Add back: goodwill amortization,			
net of taxes.....	-- 124 139	-----	-
	-----	Adjusted net	
income.....			
\$ 822 \$ 627 \$ 42 =====	=====	=====	BASIC
EARNINGS PER COMMON SHARE: Reported net income			
(loss).....	\$1.34		
\$0.80 \$(0.16) Goodwill amortization, net of			
taxes.....	-- 0.20 0.22	--	
	---	Adjusted net	
income.....			
\$1.34 \$1.00 \$ 0.06 =====	=====	=====	DILUTED
EARNINGS PER COMMON SHARE: Reported net income			
(loss).....	\$1.33		
\$0.80 \$(0.16) Goodwill amortization, net of			
taxes.....	-- 0.20 0.22	--	
	---	Adjusted net	
income.....			
\$1.33 \$1.00 \$ 0.06 =====	=====	=====	

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. DEBT AND INTEREST RATE AND FOREIGN CURRENCY DERIVATIVES

DEBT

Debt at December 31 consisted of the following (in millions):

	2002	2001	-----	-----	Bank credit
facilities.....					
\$ -- \$ -- Senior notes and debentures, maturing					
through 2032, interest of 6.375% to					
8.75%.....					
6,164 6,169 4% Convertible subordinated notes					
due 2002.....			--	427	5.75%
Convertible subordinated notes due 2005, (2%					
interest rate and 3.75% issuance					
discount).....	32	31			Tax-
exempt and project bonds, principal payable in					
periodic installments, maturing through 2031,					
fixed and variable interest rates ranging from					
1.25% to 10.0% (weighted average interest rate					
of 4%) at December 31, 2002.....	1,896				
1,404 Capital leases and other notes payable,					
maturing through 2022, interest rates up to					
12%.....	201	193	-----		
	-----	\$8,293	\$8,224	=====	=====

The schedule of debt (including the current portion) maturities for the next five years and thereafter is as follows (in millions):

2003(A),		
(B) 2004		
2005 2006		
2007		
THEREAFTER		
- - - - -		
- - - - -		
- - - - -		
- - - - -		
---- \$231		
\$737 \$900		
\$494 \$474		
\$5,457		

- (a) The Company has \$434 million of 6.375% senior notes due December 1, 2003. The Company also has \$450 million of 7.1% senior notes due August 1, 2026 that are subject to early redemption on August 1, 2003 at the option of the holder. The Company has classified \$770 million of these borrowings as long-term at December 31, 2002 based upon its ability to use its revolving credit facilities, which are both long-term, to refinance these borrowings at their respective maturity or repayment date. The Company intends to pursue other sources of long-term financing to refinance the borrowings; however, in the event other sources of long-term financing are not available, the Company intends to use its revolving credit facilities.
- (b) The Company has \$546 million of tax-exempt bonds at December 31, 2002 that mature through 2031 that are remarketed weekly by a remarketing agent. The Company has classified these borrowings as long-term at December 31, 2002 because the borrowings are supported by letters of credit issued under the Company's bank credit facilities, which are long-term.

As of December 31, 2002, the Company had a \$650 million syndicated revolving credit facility (the "Three Year Revolver"), and a \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of December 31, 2002, the Company had letters of credit in the aggregate amount of approximately \$1.75 billion (of which approximately \$1.63 billion are issued under the revolving credit facilities) that generally have terms allowing automatic renewal after one year. At December 31, 2002, no balances were outstanding under the Company's revolving credit facilities and it had unused and available credit capacity under these facilities of approximately \$770 million.

As of December 31, 2002, the financial covenants the Company is required to maintain under its credit facilities include (i) an interest coverage ratio; (ii) total debt to EBITDA and; (iii) minimum net worth, all as defined in the credit facilities solely for the purpose of determining compliance with the covenants. The interest coverage ratio requires that at the end of any fiscal quarter the Company will not permit the ratio of (A) the Company's consolidated net income plus interest expense and income taxes ("EBIT") for the four fiscal quarters then ending to (B) consolidated total interest expense for such period to be less than 2.5 to 1 for quarters ending on or before December 31, 2002 and 3 to 1 thereafter. The total debt to EBITDA covenant

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

requires that at the end of any fiscal quarter, the Company will not permit the ratio of (A) all indebtedness and certain contingent liabilities such as financial guarantees to (B) EBIT plus depreciation and amortization expense ("EBITDA") for the four fiscal quarters then ending to exceed 3 to 1. The Company's minimum net worth covenant requires that the Company will not allow the sum of stockholders' equity to be less than \$3.5 billion plus 75% of the Company's cumulative consolidated net income for each fiscal quarter, beginning with the first fiscal quarter ended March 31, 2001. At December 31, 2002, the Company is in compliance with all covenants under its credit facilities and all other debt instruments.

The Company's 5.75% convertible subordinated notes due 2005 are subordinated to all existing and future senior indebtedness of the Company. Each note bears cash interest at the rate of two percent per annum of the \$1,000 principal amount at maturity, payable semi-annually. The stated discount is \$282.20. At the option of the holder, each note was redeemable for cash by the Company on March 15, 2000, at \$843.03 along with the related accrued unpaid interest. The notes have been callable by the Company since March 15, 2000, for cash at the stated issue price plus accrued stated discount and accrued interest through the date of redemption. In addition, each note is convertible at any time prior to maturity into approximately 18.9 shares of the Company's common stock, subject to adjustment upon the occurrence of certain events. Upon any such conversion, the Company has the option of paying cash equal to the market value of the shares which would otherwise be issuable.

During the fourth quarter of 2002, the Company elected to repay approximately \$145 million of its senior debt issuances prior to their maturity dates. In connection with these repayments, the Company recognized an extraordinary charge of approximately \$2 million, net of tax benefit, for prepayment penalties and other costs incurred.

In November 2002, the Company privately placed \$400 million of 6 3/8% senior unsecured notes due November 15, 2012. Interest on the notes is due on May 15 and November 15 of each year. The net proceeds of the offering were approximately \$396 million after deducting underwriters discounts and expenses. The Company used these proceeds primarily to pay the \$350 million of 6.5% senior notes that came due December 15, 2002.

In May 2002, the Company privately placed \$500 million of 7 3/4% senior unsecured notes due May 15, 2032. Interest on the notes is due on November 15 and May 15 of each year. The net proceeds of the offering were approximately \$498 million, after deducting underwriters' discounts and expenses. The Company used these proceeds to pay the \$300 million of 6.625% senior notes that matured on July 15, 2002 and a portion of the \$285.7 million of 7.7% senior notes that matured on October 1, 2002.

During the first quarter of 2002, the Company refinanced approximately \$49 million of fixed-rate tax-exempt bonds maturing in 2011 with variable-rate tax-exempt bonds maturing in 2022. As a result, the Company incurred prepayment penalties and other fees for a total extraordinary item charge, net of tax benefit, of approximately \$1 million. Also in the first quarter of 2002, the Company retired its 4% convertible subordinated notes due February 2002 by payment of \$427 million to the holders of the outstanding notes.

The Company's debt balances are generally unsecured, except for approximately \$618 million of the tax-exempt and project bonds outstanding at December 31, 2002 that are issued by the Company's subsidiaries and are secured by the related subsidiary's assets and revenue.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

INTEREST RATE SWAPS

The Company manages the interest rate risk of its debt portfolio principally by using interest rate derivatives to achieve a desired position of fixed and floating rate debt, which is approximately 70% fixed and 30% floating at December 31, 2002. Interest rate swap agreements that were outstanding as of December 31, 2002 and 2001 are set forth in the table below (dollars in millions):

NOTIONAL AS OF AMOUNT RECEIVE PAY MATURITY DATE - -----	

December 31, 2001.....	\$ 20
Floating	1.88%
Fixed	7.27%
Through December 31, 2012	
December 31, 2001.....	\$1,750
Fixed	6.50%-8.75%
Floating	3.23%-4.00%
Through May 1, 2018	
December 31, 2002.....	\$ 19
Floating	1.38%
Fixed	7.27%
Through December 31, 2012	
December 31, 2002.....	\$2,000
Fixed	6.375%-7.65%
Floating	2.965%-4.91%
Through July 15, 2028	
FAIR VALUE AS OF ASSET/(LIABILITY)	
(A) - -----	

December 31, 2001.....	\$ (2)
(b) December 31, 2001.....	\$ --
(c) December 31, 2002.....	\$ (3)
(b) December 31, 2002.....	\$ 34

-
- (a) The fair value of interest rate derivatives is included in the Company's balance sheets as components of other long-term assets and other long-term liabilities. Fair values of these interest rate derivatives are based on third party pricing models.
 - (b) The interest rate derivative contract's terms do not qualify for hedge accounting. Therefore, the contract is accounted for at fair value with changes in fair value recognized immediately in interest expense.
 - (c) The fair value for these interest rate derivatives at December 31, 2001, is comprised of \$20 million long-term assets and \$20 million long-term liabilities.

In 2002, the Company elected to terminate several interest rate swap agreements with a notional amount of \$2.95 billion prior to the scheduled

maturities and received cash of \$200 million (which is comprised of \$166 million for the fair value of the swaps that were terminated and \$34 million of accrued but unpaid interest receivable) from the counterparties to the interest rate swaps. The Company had designated these swap agreements as fair value hedges, and as such the unamortized adjustment to long-term debt for the change in fair value of the swaps remains classified with long-term debt. The proceeds received from the termination of the interest rate swap agreements have been classified as a change in other assets or other liabilities within operating activities in the accompanying consolidated statement of cash flows.

The carrying value of debt instruments has been increased by approximately \$239 million and \$62 million as of December 31, 2002 and December 31, 2001, respectively, related to fair value hedge accounting for interest rate swap contracts. The following table summarizes the accumulated fair value adjustments from interest rate swap agreements by underlying debt instrument category at December 31 (in millions):

INCREASE IN CARRYING VALUE OF DEBT DUE TO HEDGE ACCOUNTING FOR INTEREST RATE SWAPS			
2002	2001	-----	

		Senior notes and debentures: Active swap agreements.....	
	\$ 34	-- Terminated swap agreements.....	
203	60	---- --- 237 60 Tax-exempt and project bonds: Terminated swap agreements.....	2
2	----	--- \$239 \$62	==== ===

Interest rate swap agreements reduced net interest expense by \$86 million and \$39 million for the years ended 2002 and 2001, respectively. The significant terms of the interest rate contracts and the underlying debt instruments are identical, thus no ineffectiveness has been realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

INTEREST RATE LOCKS

During 2002, the Company entered into cash flow hedges to secure the underlying interest rates in anticipation of its 2002 senior note issuances. The Company settled with the counterparties for approximately \$66 million, which was paid concurrently with the related 2002 senior note issuance. In 2001, the Company completed a similar cash flow hedge to secure the then current market interest rate in anticipation of senior unsecured note issuances. These 2001 and 2002 hedging agreements resulted in a deferred loss, net of taxes, of \$43 million at December 31, 2002, which is included in accumulated other comprehensive income. Of this amount, \$7 million (on a pre-tax basis) is scheduled to be reclassified into interest expense in 2003. The ineffective portion of these hedges was immaterial to the Company in 2002.

FOREIGN CURRENCY DERIVATIVES

During June 2002, the Company entered into forward contracts and cross-currency swaps, which expire through May 2004, with net notional amounts of \$165 million Canadian dollars, to mitigate the risk of foreign currency exchange rate fluctuations associated with the conversion of Canadian dollars into US dollars. These instruments hedge the expected future cash flows associated with an intercompany note denominated in Canadian dollars and are therefore accounted for as cash flow hedges. At December 31, 2002, these derivatives have a net fair value of approximately \$3 million and are included in other long-term assets. The Company did not incur any ineffectiveness with respect to these derivative transactions. The Company had no foreign currency derivatives outstanding at December 31, 2001.

8. ENVIRONMENTAL LIABILITIES

The Company has material financial commitments for closure and post-closure obligations with respect to the landfills it owns or operates. Estimates of closure and post-closure costs are developed using input from the Company's engineers and accountants and are reviewed by management, typically at least once per year. Adjustments for closure and post-closure estimates are accounted for prospectively over the remaining capacity of the landfill. The estimates are based on the Company's interpretation of current requirements and proposed regulatory changes. For landfills, the present value of closure and post-closure liabilities is accrued using a calculated rate per ton and charged to expense as airspace is consumed. Each year the Company revises its calculated rate per ton to reflect accretion on the present value of the liability. The revised rate per ton is calculated by dividing the revised present value of the liability, less the accumulated liability recognized to date, by the estimated remaining capacity of the landfill. The present value of total estimated closure and post-closure costs will be fully accrued for each landfill at the time the site discontinues accepting waste and is closed. Closure and post-closure accruals consider estimates for the cap and cover for the site, methane gas control, leachate management and groundwater monitoring, and other operational and maintenance costs to be incurred after the site discontinues accepting waste, which is generally expected to be for a period of up to thirty years after final site closure. For purchased disposal sites, the Company assesses and records a present value-based closure and post-closure liability at the time the Company assumes closure and post-closure responsibility. This liability is based on the estimated closure and post-closure costs and the percentage of airspace used as of the date the Company has assumed this responsibility. Thereafter, the difference between the closure and post-closure liability recorded at the time of acquisition and the present value of total estimated closure and post-closure costs to be incurred is accrued using the calculated rate and charged to operating costs as airspace is consumed.

In the United States, the closure and post-closure requirements are established by the EPA's Subtitles C and D regulations, as implemented and applied on a state-by-state basis. The costs to comply with these requirements could increase in the future as a result of legislation or regulation.

The Company routinely reviews and evaluates sites that require remediation, including sites listed on the EPA's NPL sites. The Company considers whether the Company was an owner, operator, transporter, or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

generator at the site, the amount and type of waste hauled to the site and the number of years the Company was connected with the site. The Company also reviews the same information with respect to other named and unnamed PRPs. The Company then reviews the estimated cost for the likely remedy, which is based on management's judgment and experience in remediating such sites for the Company as well as for unrelated parties, information available from regulatory agencies as to costs of remediation, and the number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site, as well as the typical allocation of costs among PRPs. These estimates are sometimes a range of reasonably possible outcomes. In those cases, the Company uses the amount within the range that constitutes its best estimate. If no amount within the range appears to be a better estimate than any other, the Company uses the amounts that are the low ends of such ranges in accordance with SFAS No. 5 and its interpretations. Were the Company to use the high ends of such ranges, the Company's potential liability would be approximately \$220 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of December 31, 2002. As used in this context, "reasonably possible" means the Company believes it is more than remote but less than likely.

Estimates of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult, and the ultimate outcome 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 necessitate the recording of additional liabilities that could be material. Additionally, the Company's ongoing review of its remediation liabilities could result in revisions that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period. See Note 20 for further discussion.

As part of its ongoing operations, the Company reviews its reserve requirements for remediation and other environmental matters based on an analysis of, among other things, the regulatory context surrounding landfills and remaining airspace capacity in light of changes to operational efficiencies. Accordingly, revisions to remediation reserve requirements may result in upward or downward adjustments to income from operations, which may be material, in any given period. Adjustments for closure and post-closure estimates are accounted for prospectively over the remaining capacity of the landfill.

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated (at 2% at both December 31, 2002 and 2001) until expected time of payment and then discounted to present value (at 5.0% and 5.5% at December 31, 2002 and 2001, respectively). The inflation rate and discount rates, which are based on the rates for United States Treasury bonds, are reviewed on an annual basis. For landfills that are in the post-closure monitoring period and for remedial liabilities at all sites, interest accretion is included in operating costs and expenses and is based on the effective interest method. For operating landfills, the accretion of the interest related to the discounted environmental liabilities is included in the annual calculation of the landfill's closure and post-closure cost per ton and is charged to operating costs as landfill airspace is consumed. The Company's method of accounting for landfill closure and post-closure, as well as landfill final capping, will change upon the Company's adoption of SFAS No. 143. See Note 25 for additional discussion on SFAS No. 143. The portion of the Company's recorded environmental liabilities that has never been subject to inflation or discounting was approximately \$79 million and \$108 million at December 31, 2002 and 2001, respectively. Had the Company not discounted any portion of its liability, the amount recorded would have been increased by approximately \$462 million at December 31, 2002.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Liabilities for closure, post-closure and environmental remediation costs consisted of the following (in millions):

DECEMBER 31, -----	2002	2001	-----	-----	Current
portion, included in accrued liabilities: Closure/Post-					
closure.....	\$ 49	\$ 55			
Remediation.....					
65 66 -----	114	121	-----	-----	Long-term:
					Closure/Post-
closure.....	606	570			
Remediation.....					
278 255 -----	884	825	-----	-----	Total
recorded.....					
998 \$946 =====	Amount to be provided on a units-of-				
	consumption basis over the remaining expected useful life				
	of landfills (including discount of \$462 million related				
	to recorded amounts)..... 1,994 -----				
	Expected aggregate				
	environmental liabilities based on current				
cost.....	\$2,992				
	=====				

The changes to environmental liabilities are as follows (in millions):

YEARS ENDED DECEMBER 31, -----	2002	2001	-----	-----
Balance, beginning of				
year.....	\$946	\$962		
Expense.....				
65 65 -----				
Spending.....				
(80) (91) Acquisitions, divestitures and other				
adjustments.....	67(a)	10	-----	-----
year.....	\$998	\$946	=====	=====
	=====			

(a) The majority of the \$67 million of transactions in 2002 classified as acquisitions, divestitures and other adjustments relates to reclassification entries to increase environmental liabilities and correspondingly increase other long-term assets.

Anticipated payments (based on current costs) of currently identified environmental liabilities for the next five years and thereafter are as follows (in millions):

2003	2004
2005	2006
2007	
THEREAFTER	

\$114	\$69
\$68	\$56
\$46	\$2,639

The Company has, from time to time, filed suit against insurance carriers seeking reimbursement for environmentally related remedial, defense and tort claim costs at a number of sites. The majority of these claims have been settled. The Company is actively pursuing its remaining claims. For 2002, 2001, and 2000, the Company recorded approximately \$1 million, \$105 million, and \$2 million, respectively, of such recoveries from insurance carriers. These recoveries are included as reductions to operating costs and expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts of the Company's financial instruments have been determined by the Company using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value estimates presented herein are based on information available to management as of December 31, 2002 and 2001. Such amounts have not been revalued since those dates, and current estimates of fair value may differ significantly from the amounts presented herein.

The carrying values of cash and cash equivalents, short-term investments, trade accounts receivable, trade accounts payable, financial instruments included in notes and other receivables and financial instruments included in other assets or other liabilities are estimated to approximate their fair values principally because of the short-term maturities of these instruments. At December 31, 2002 and 2001, the carrying amount of debt was \$8.29 billion and \$8.22 billion, and the fair value of debt was estimated at \$8.68 billion and \$8.19 billion, respectively. The fair value of the Company's senior notes and convertible subordinated notes are based on quoted market prices. The fair value of project debt and other debt is estimated using discounted cash flow analysis, based on rates the Company would currently pay for similar types of instruments.

10. FIBER DERIVATIVES AND HEDGING TRANSACTIONS

The Company is a market maker in over the counter derivatives for waste paper and other paper commodities ("fiber derivatives"). Since there is no regulated exchange market for these commodities, fair value assessments of the Company's fiber derivatives are based on information from independent, third party broker dealers, alternate price sources, and the Company's view of the market's economic fundamentals. Although these assessments represent the Company's best estimates on any given day, the values, as reported on December 31, 2002, will change over time due to subsequent fluctuations in market conditions.

The Company has entered into certain fiber swap agreements with the objective of generating profits from changes in market prices of waste paper and other paper products. These derivatives are not designated as hedges and are accounted for at fair value, with changes in value reflected immediately in earnings. These derivatives increased revenues by approximately \$2 million for the year ended December 31, 2002.

The Company also enters into fiber swap agreements to mitigate the variability in cash flows of certain paper products expected to be sold from its material recovery facilities and accounts for these derivatives as cash flow hedges. The Company's fiber swap agreements have an average term of approximately two years with the maximum term being five years. The terms of the agreements represent the span of time over which the Company is hedging its exposure to variability in future cash flows from the sale of waste paper products. The ineffective portion of these hedges was immaterial to the Company in 2002.

The notional amounts and terms of fiber derivatives outstanding at December 31, 2002 are summarized in the table below (dollars in millions):

NOTIONAL AMOUNT RECEIVE PAY MATURITY DATE FAIR VALUE - -----	

---	(IN TONS)
2,347,098.....	Fixed Floating Through December 31, 2007 \$ 3
359,200.....	Floating Fixed Through December 31, 2005 1 -----
	\$ 4 =====

(c) 42 Open Market
Purchases(d).....
N/A N/A 25,594
\$23.01-\$28.19 658
N/A 658 -----
----- 38,250
\$1,000 \$982 =====
=====

- - - - -

- (a) The Company accounted for the initial payment as a purchase of treasury stock and classified the future settlement with the counterparty as an equity instrument because the Company had the option under the agreement to settle its obligations, if any, in shares of its common stock.
- (b) The weighted average daily market price of the Company's stock during the valuation period times the number of shares it purchased was approximately \$18 million less than the approximately \$300 million the Company paid for the repurchase. Pursuant to the terms of the agreement, the counterparty paid the Company this difference of approximately \$18 million at the end of the valuation period, which occurred during the third quarter of 2002, to settle the agreement. The Company accounted for the cash receipt as an adjustment to the carrying value of treasury stock and has therefore included it in common stock repurchases within financing activities in the accompanying consolidated statement of cash flows.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (c) The weighted average daily market price of our stock during the valuation period times the number of shares the Company purchased was approximately \$3 million less than the approximately \$42 million the Company initially paid. Pursuant to the agreement the counterparty will pay the Company the difference of approximately \$3 million at the end of the valuation period to settle the agreement.
- (d) The Company engaged in open market purchases when trading was allowed pursuant to law and the Company's insider trading policy.

12. COMMON STOCK OPTIONS AND WARRANTS

Under the Company's 1993 Stock Option Incentive Plan and the Company's 2000 Stock Option Incentive Plan, options to purchase 26.5 million and 29.0 million shares, respectively, of the Company's common stock may be granted to officers, directors, and key employees. Options are granted under these plans at exercise prices at least equal to the fair market value of common stock on the date of grant. The option plans have various vesting periods, and expire up to ten years from the date of grant. The Company also has a 2000 Broad-Based Employee Plan under which options to purchase an aggregate of 3.0 million shares can be granted to any non-officer employees. The exercise prices for options under the Broad-Based Plan are at least equal to the fair market value of common stock on the date of grant, may vest over various periods, and expire up to ten years from the date of grant. Stock options granted by the Company in 2002, 2001 and 2000 generally have ten year terms and vest over four or five years.

During the majority of 2000, the Company made original issuances of its common stock upon exercises of stock options and warrants. Beginning in the fourth quarter of 2000, the Company issued treasury stock upon exercises of stock options and warrants. When issuing shares of treasury stock, the difference between the stock option exercise price and the average treasury stock cost is recorded as an addition to or deduction from additional paid-in-capital.

Under the Company's 1996 Stock Option Plan for Non-Employee Directors, the Company's outside directors receive an annual grant of 10,000 options on each January 1. In accordance with the plan, options to purchase up to 2.4 million shares of the Company's common stock may be granted, with one-year vesting periods and expiration dates ten years from the date of grant. The options are granted at exercise prices equal to the fair market value of the common stock on the date of grant.

The Company also has outstanding options and warrants related to various predecessor plans acquired through merger and acquisition activity. These options and warrants generally continue to vest under their original schedules which range up to five years from the date of grant, although some vested immediately upon the change of control related to the merger or acquisition.

The following table summarizes common stock option and warrant transactions under the aforementioned plans and various predecessor and assumed plans for 2002, 2001 and 2000 (shares in thousands):

YEARS ENDED DECEMBER 31, -----			
----- 2002			
2001	2000	-----	--

---	WEIGHTED	WEIGHTED	WEIGHTED
AVERAGE	AVERAGE	AVERAGE	
EXERCISE	EXERCISE	EXERCISE	
SHARES	PRICE	SHARES	PRICE
SHARES	PRICE	-----	-----

Outstanding at beginning of year.....			
41,465	\$27.96	40,257	\$30.10
	37,827		\$34.12
Granted.....			
10,376	\$27.60	11,469	\$24.59
	8,069		\$15.46
Exercised.....			
(1,758)	\$15.23	(3,292)	\$15.89
(1,308)	\$18.78	Forfeited or expired.....	(5,614)
\$35.96	(6,969)	\$40.46	(4,331)

\$41.36	-----	-----	-----
	Outstanding at end of		
year.....	44,469	\$27.36	41,465
	\$27.96	40,257	\$30.10
	=====		
	=====	Exercisable at	
end of year.....	21,789	\$29.55	
	21,159	\$31.60	24,598
		\$32.87	
	=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Outstanding and exercisable stock options and warrants at December 31, 2002, were as follows (shares in thousands):

OUTSTANDING			
EXERCISABLE -----			

RANGE OF WEIGHTED	AVERAGE WEIGHTED	AVERAGE WEIGHTED	AVERAGE EXERCISE
PRICES	SHARES	EXERCISE PRICE	REMAINING YEARS
SHARES	EXERCISE PRICE	-----	-----
-----	-----	-----	-----
-----	-----	-----	-----
\$5.00-\$10.00.....	59	\$ 7.54	1.69
		7.54	59
\$10.01-\$20.00.....	9,012	\$15.23	6.62
		5,163	\$15.07
\$20.01-\$30.00.....	25,809	\$25.69	7.09
		8,045	\$24.85
\$30.01-\$40.00.....	3,824	\$35.11	4.99
		3,556	\$35.35
\$40.01-\$50.00.....	2,603	\$43.53	4.53
		2,520	\$43.42
\$50.01-\$62.28.....	3,162	\$53.23	5.67
	2,446	\$53.39	-----
		-----	-----
\$5.00-\$62.28.....	44,469	\$27.36	6.55
	21,789	\$29.55	=====
		=====	

The Company's President, CEO, and Chairman of the Board was granted 650,000 stock options upon joining the Company in November 1999. The options, which are included in the above tables, vest according to certain performance goals in lieu of the normal vesting schedules. Notwithstanding these performance goals, all of these options will vest no later than five years from the date of grant.

13. EMPLOYEE BENEFIT PLANS

The Waste Management Retirement Savings Plan ("Savings Plan") covers employees (except those working subject to collective bargaining agreements, which do not provide for coverage under such plans) following a 90 day waiting period after hire, and allows eligible employees to contribute up to 15% of their annual compensation, as limited by IRS regulations. Under the Savings Plan, the Company matches in cash employee contributions up to 3% of their eligible compensation and matches 50% of employee contributions in excess of 3% but no more than 6% of eligible compensation. Both employee and Company contributions vest immediately. Charges to operations for the Company's defined contribution plans were \$43 million, \$41 million and \$38 million, during 2002, 2001 and 2000, respectively.

In addition, Company subsidiaries sponsor defined benefit plans that cover employees not covered by the Savings Plan but are members of a bargaining unit whose agreement provides for participation in the plan (the "Collectively Bargained Employees Plan"). The normal form of benefit is a monthly annuity payable over the lifetime of the participant, commencing on his or her normal retirement at age 65, or after 30 years of benefit service if a participant is at least age 50.

Waste Management Holdings, Inc. ("WM Holdings") had a qualified defined benefit pension plan (the "Plan") for all eligible non-union domestic employees

which was terminated as of October 31, 1999 in connection with the Company's acquisition of WM Holdings in July 1998 (the "WM Holdings Merger"). The Company contributed approximately \$145 million to the Plan's trusts during 2000 and contributed approximately \$14 million in 2001 related to the final liquidation of the Plan. The Company recorded an expense for the Plan during 2000 of approximately \$197 million, which was included in asset impairment and unusual items. No expense was recorded in 2001 or 2002.

In conjunction with the WM Holdings Merger, the Company terminated certain non-qualified supplemental benefit plans for certain officers and non-officer managers, the most significant plan being the WM Holdings' Supplemental Executive Retirement Plan ("SERP") (collectively the "Supplemental Plans").

The Plan, Supplemental Plans and Collectively Bargained Employees Plan are combined in the tables below under the caption "Pension Benefits."

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

WM Holdings and certain of its subsidiaries provided post-retirement health care and other benefits to eligible employees. In conjunction with the WM Holdings Merger, the Company limited participation in these plans to participating retired employees as of December 31, 1998. These plans are combined under the caption "Other Benefits" in the tables that follow. Additionally, the Company sponsors an ongoing post-retirement plan that is fully funded and is also included in "Other Benefits" in the tables below.

The following tables provide a reconciliation of the changes in the benefit obligations and the fair value of assets over the two-year period ended December 31, 2002, a statement of the funded status for both years for the related plans and the amount recognized in the consolidated balance sheets as of December 31 for both years (in millions):

PENSION BENEFITS	OTHER BENEFITS	-----	----
-----	2002	2001	2002
-----	2002	2001	2001
-----	-----	-----	-----
----- CHANGE IN BENEFIT OBLIGATION: Benefit			
obligation at beginning of year.....	\$18		
cost.....	\$75	\$ 54	\$ 51
cost.....	2	1	--
----- Interest			
cost.....	1	2	3
----- Actuarial			
(gain)/loss.....	4	(4)	1
----- 3 Benefits			
paid.....	(1)	--	
----- (3) (4)			
Curtailments.....			
-- (56) --	--	--	--
----- Benefit obligation at			
end of year.....	\$24	\$18	\$ 55
====	====	====	====
----- CHANGE IN PLAN ASSETS: Fair value			
of plan assets at beginning of year.....	\$12	\$16	\$
----- \$ -- Actual return on plan			
assets.....	8	(2)	--
----- Employer			
contributions.....	3	52	3
----- 4 Benefits			
paid.....	(1)		
(54) (3) (4) ---	---	---	---
----- Fair value of plan			
assets at end of year.....	\$22	\$12	\$ --
====	====	====	====
----- FUNDED STATUS: Funded status at			
December 31.....	\$(2)	\$(6)	\$(55)
----- \$(54) Unrecognized			
loss.....	1	4	3
----- Unrecognized prior service			
cost.....	--	--	(15)
----- (16) --- ---			
----- Net amount			
recognized.....	\$(1)	\$(2)	
\$(67) \$(68) ===	===	===	===
----- BALANCE SHEET: Accrued			
benefit liability.....	\$(1)		
\$(4) \$(67) \$(68)			
----- Accumulated other comprehensive			
----- income before tax			
benefit.....	-		
- 2 --	--	--	--
----- \$ (1) \$ (2) \$ (67) \$ (68) ===			
----- ===			

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table provides the components of net periodic benefit cost for 2002, 2001 and 2000 (in millions):

	PENSION BENEFITS		OTHER BENEFITS			
	2002	2001	2000	2002	2001	2000

cost.....	\$ 2	\$ 1	\$ 1	\$ --	\$ --	\$ --
	Service					
	Interest					
cost.....	1	2	21	3	4	4
plan assets.....	(1)	(1)				
prior service cost.....	--	--	--			
loss.....	(1)	(2)	(2)			
	13					
	Net periodic					
benefit cost.....	2	2				
(gain)/loss (included in asset	24	2	2			
impairments and unusual						
items).....	(1)	175	--	--	--	--
	Net periodic					
benefit cost after curtailments						
and settlements.....	\$ 2	\$				
	1	\$199	\$ 2	\$ 2	\$ 2	====
	====	====	====	====	====	====

The assumptions used in the measurement of the Company's benefit obligations are shown in the following table (weighted average assumptions as of December 31):

	PENSION BENEFITS		OTHER BENEFITS			
	2002	2001	2002	2001		

	Discount					
rate.....	6.50%	7.19%	6.50%	7.25%	Expected return on	
plan assets.....	9.00%					
	9.00%		n/a		Rate of compensation	
increases.....	3.50%		n/a		n/a	

The principal element of the "other benefits" referred to above is the post-retirement health care plan. Participants in the WM Holdings post-retirement plan (one of two plans that comprise the "other benefits" information) contribute to the cost of the benefit, and for retirees since January 1, 1992, the Company's contribution is capped at between \$0 and \$600 per month per retiree, based on years of service. For measurement purposes, a 12.0% annual rate of increase in the per capita cost of covered health care claims was assumed for 2002 (being an average of the rate used by all plans); the rate was assumed to decrease to 6.0% in 2006 and remain at that level thereafter.

A 1% change in assumed health care cost trend rates has no significant effect on total service and interest cost components of net periodic post-retirement health care costs. A 1% increase or decrease in assumed health care cost trend rates would increase or decrease the accumulated post-retirement benefit obligation by approximately \$5 million.

Company subsidiaries participate in various multi-employer pension plans and in two instances, site or contract specific plans (one of which terminated and completed liquidation in 2002), covering certain employees not covered under the Company's pension plans. These multi-employer plans are generally defined benefit plans; however, in many cases, specific benefit levels are not negotiated with or known by the employer contributors. The projected benefit obligation, plan assets and unfunded liability of the multi-employer pension plans, and the site or contract specific plans are not material and are not included in the tables above. Contributions of \$31 million, \$23 million and \$28 million for subsidiaries' defined benefit plans were charged to operations in

2002, 2001 and 2000, respectively.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

14. INCOME TAXES

For financial reporting purposes, income (loss) before income taxes and extraordinary item and cumulative effect of change in accounting principle, showing domestic and international sources, was as follows (in millions):

YEARS ENDED DECEMBER 31, -----	2002
2001 2000 -----	-----
Domestic.....	\$1,244 \$742 \$491
International.....	
3 45 (170) -----	-----
Income before income taxes and extraordinary item and cumulative effect of changes in accounting principle.....	\$1,247 \$787 \$321 =====
	=====

The provision for income taxes before extraordinary item and cumulative effect of change in accounting principle consisted of the following (in millions):

YEARS ENDED DECEMBER 31, -----	2002
2001 2000 -----	----- Current:
Federal.....	\$ 97 \$ 95 \$238
State.....	26 40 74
Foreign.....	(18) 18 41 -----
	105 153 353 -----
	Deferred:
Federal.....	259 149 50
State.....	58 19 6
Foreign.....	2 (37) 9 -----
	319 131 65 -----
Provision for income taxes.....	\$424 \$284 \$418 =====
	=====

The federal statutory rate is reconciled to the effective rate as follows:

YEARS ENDED DECEMBER 31, -----	2002
2001 2000 -----	-----
Income tax expense at federal statutory rate.....	35.00% 35.00% 35.00%
State and local income taxes, net of federal income tax benefit.....	4.40 4.86 16.17
Nondeductible costs relating to acquired intangibles.....	0.76 0.87 48.40
Writedown of investments in subsidiaries.....	-- 1.92
Minority interest.....	12.81 0.20
Sale of subsidiaries.....	0.23 2.54 (0.90)
Deferred tax valuation and other tax reserves.....	-- -- 1.21
Tax rate differential on foreign income.....	(2.24) 3.05 3.13
Cumulative effect of change in Canadian tax rates.....	-- (5.28) --
Nonconventional fuel tax credit.....	(3.08) (3.75) (8.30)
Other.....	(0.14) (0.81) (4.27) -----

Provision for income taxes.....	34.00% 36.09%
	130.22% =====
	=====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The components of the net deferred tax assets (liabilities) at December 31 are as follows (in millions):

DECEMBER 31,	-----	2002	2001	-----	-----
-- Deferred tax assets: Net operating loss, capital loss and tax credit carryforwards.....					
	\$ 298	\$ 328	Environmental and other reserves.....	1,045	1,047
			Reserves not deductible until paid.....	73	75
Subtotal.....	1,416	1,450	-----	-----	-----
			Valuation allowance.....		
	(463)	(454)	Deferred tax liabilities: Property, equipment, intangible assets, and other.....		
	(1,950)	(1,697)	-----	-----	-----
liabilities.....	\$ (997)	\$ (701)	-----	-----	-----
	=====	=====			

At December 31, 2002 the Company's subsidiaries have approximately \$19 million of federal net operating loss ("NOL") carryforwards, \$3.6 billion of state NOL carryforwards, and \$32 million of foreign NOL carryforwards. The NOL carryforwards have expiration dates through the year 2022. The Company's subsidiaries have approximately \$1 million of alternative minimum tax credit carryforwards that may be used indefinitely; state tax credit carryforwards of \$13 million; and foreign tax credit carryforwards of \$18 million.

Valuation allowances have been established for uncertainties in realizing the benefit of tax loss and credit carryforwards and other deferred tax assets. While the Company expects to realize the deferred tax assets, net of the valuation allowances, changes in estimates of future taxable income or in tax laws may alter this expectation. The valuation allowance increased approximately \$9 million and \$10 million in 2002 and 2001, respectively, primarily due to the uncertainty of realizing foreign and state NOL carryforwards and tax credits.

With respect to its Canadian operations, the Company provided \$24 million for the repatriation of \$230 million of capital in 2001. Unremitted earnings in foreign operations were approximately \$167 million at December 31, 2002, which the Company intends to reinvest. It is not practicable to determine the amount of United States based income taxes that would be payable upon remittance of the assets that represent those earnings.

15. SEGMENT AND RELATED INFORMATION

The Company manages and evaluates its operations primarily through six operating Groups, the Company's Eastern, Midwest, Southern, Western, Canadian Waste Services Inc. ("CWS" or "Canada"), and Wheelabrator Technologies Inc. ("WTI") groups. These six operating Groups are presented below as the Company's reportable segments. These reportable segments, when combined with certain other operations not managed through the six operating Groups ("Other NASW"), comprise the Company's NASW operations. NASW, the Company's core business, provides integrated waste management services consisting of collection, disposal (solid waste landfill and hazardous waste landfill), transfer, waste-to-energy facilities and IPPs that are managed by WTI, recycling and other miscellaneous services to commercial, industrial, municipal and residential customers throughout the United States, Puerto Rico and Canada. The Company also had international waste management and non-solid waste services, all of which were divested by March 31, 2002. These operations are included in the table below as "Other."

361 289 277 2,981
 Southern.....
 2,999 (446) 2,553
 585 283 230 2,773
 Western.....
 2,541 (356) 2,185
 428 210 210 2,740
 WTI(g).....
 802 (55) 747 229 72
 18 2,567 Other
 NASW(a)..... 174
 (30) 144 (30) 8 9
 500 -----

Total

NASW.....
 13,156 (1,994)
 11,162 2,176 1,330
 1,169 17,888
 Other.....
 204 (44) 160 (47) --
 1 124
 Corporate(b).....
 -- -- -- (846) 41
 158 1,880 -----

Total.....
 \$13,360 \$(2,038)
 \$11,322 \$1,283
 \$1,371 \$1,328
 \$19,892 =====
 =====
 =====
 ===== 2000

Canada.....
 \$ 548 \$ (55) \$ 493 \$
 59 \$ 74 \$ 47 \$ 1,236
 Eastern.....
 3,849 (747) 3,102
 546 409 414 5,193
 Midwest.....
 2,408 (342) 2,066
 374 315 203 2,962
 Southern.....
 3,010 (434) 2,576
 542 298 240 2,790
 Western.....
 2,552 (363) 2,189
 468 211 165 2,711
 WTI(g).....
 902 (53) 849 152 44
 55 1,901 Other
 NASW(a)..... 175
 (28) 147 (25) 7 39
 390 -----

Total

NASW.....
 13,444 (2,022)
 11,422 2,116 1,358
 1,163 17,183
 Other.....
 1,108 (38) 1,070
 (253) 30 80 741
 Corporate(b).....
 -- -- -- (825) 41 70
 1,681 -----

Total.....
 \$14,552 \$(2,060)
 \$12,492 \$1,038
 \$1,429 \$1,313
 \$19,605 =====
 =====
 =====
 =====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (a) Other NASW includes national recycling, national accounts and methane gas recovery operations that provide services throughout the Groups. Also included are certain year-end adjustments related to the reportable segments but not included in the measure of segment profit or loss used to assess their performance for the periods disclosed.
- (b) Corporate functions include the treasury, legal, information technology, tax, insurance, management of closed landfills and related insurance recoveries, centralized service center and other typical administrative functions.
- (c) Intercompany operating revenues reflect each segment's total intercompany sales including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.
- (d) For those items included in the determination of income from operations, the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies (see Note 2). Income from operations included goodwill amortization of \$180 million and \$156 million for the years ended December 31, 2000 and 2001 respectively. As discussed in Note 6, the Company ceased amortizing goodwill upon adoption of SFAS No. 142 on January 1, 2002. In 2002, the Company's corporate functions charged NASW operations an expense similar in amount to prior goodwill amortization. For the year ended December 31, 2002, this charge increased income from operations for the corporate functions by \$148 million and decreased income from operations by the same amount for NASW.
- (e) The reconciliation of total assets reported above to total assets on the consolidated balance sheets is as follows (in millions):

DECEMBER 31, -----			
----- 2002 2001 2000 -----			
----- Total assets, as			
reported			
above.....			
\$20,346 \$19,892 \$19,605			
Intercompany investments and			
advances eliminations.....			
(715) (402) (1,040) -----			
-- ----- Total assets, per			
consolidated balance			
sheets..... \$19,631			
\$19,490 \$18,565 =====			
=====			

- (f) Goodwill is included in total assets. The reconciliation of changes in goodwill during 2002 by reportable segment is as follows (in millions):

CANADA EASTERN MIDWEST				
SOUTHERN WESTERN WTI				
OTHER NASW TOTAL -----				
- -----				
- -----				
----- Balance,				
January 1, 2002.....				
\$210 \$1,774 \$874 \$479				
\$867 \$784 \$10 \$4,998				
Acquired				
goodwill..... 5				
18 21 19 18 -- -- 81				
Divested				
goodwill.....				
(5) (2) -- (1) (1) (4)				
(13) Translation				
adjustments..... 3 --				
-- -- -- -- 3 Other				
adjustments.....				
-- -- -- -- 8 -- 8				
Cumulative effect of				
change in accounting				
principle.... -- -- --				

```

-- -- 2 -- 2 -----
-- -----
--- ----- Balance,
December 31, 2002.....
$213 $1,790 $895 $497
$884 $790 $10 $5,079
=====
=====
=====
=====

```

(g) Income from operations for the years ended December 31, 2000 and 2001 included certain significant items for the Company's WTI segment that were unusual in nature. See Note 22 for further discussion.

The table below shows the total revenues contributed by the Company's principal lines of business within NASW (in millions).

YEARS ENDED DECEMBER 31, -----				
-- 2002 2001 2000 -----				NASW:
Collection.....	\$ 7,598	\$ 7,584	\$ 7,675	
Landfill.....	2,660	2,743	2,730	
Transfer.....	1,451	1,435	1,394	WTI (waste-to-energy and IPPs)..... 789 802 902 Recycling and other..... 635 592
		743		
Intercompany(a).....	(1,999)	(1,994)	(2,022)	-----
Operating revenues.....	\$11,134	\$11,162	\$11,422	=====

(a) Intercompany revenues between lines of business are eliminated on the consolidated financial statements.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Revenues decreased from 2000 to 2001 due to the Company selling its international operations, which was done on a country by country basis. At December 31, 2001, the Company had divested all of its international operations. As of December 31, 2000, the Company's international operations included certain operations in Sweden, and operations in Argentina and Israel. The property and equipment of the Company's international operations, as well as certain of the Company's North American operations in Mexico (which is considered non-solid waste), was reflected in current assets held-for-sale at December 31, 2000. Therefore, property and equipment relating to Europe and other foreign areas are appropriately not reflected in the table below. Operating revenues and property and equipment (net) relating to operations in the United States and Puerto Rico, Europe, Canada and all other geographic areas ("other foreign") are as follows (in millions).

YEARS ENDED DECEMBER 31, -----			
2002	2001	2000	----- Operating
revenues: United States and Puerto Rico.....			
	\$10,669	\$10,832	\$11,134
Canada.....			
	473	479	493
Europe.....			
	-- 7	600	Other
foreign..... -- 4			
	265	-----	-----
Total.....			
	\$11,142	\$11,322	\$12,492 =====

YEARS ENDED DECEMBER 31, -----			
2002	2001	2000	----- Property and
equipment, net: United States and Puerto Rico.....			
	\$ 9,846	\$ 9,599	\$ 9,295
Canada.....			
	766	758	831 -----
Total.....			
	\$10,612	\$10,357	\$10,126 =====

16. ASSET IMPAIRMENTS AND UNUSUAL ITEMS

In 2002, 2001 and 2000, the Company recorded certain charges and credits for asset impairments and unusual items as follows (in millions):

YEARS ENDED DECEMBER 31, -----				2002
2001	2000	-----	-----	Losses (gains) on businesses
sold and held-for-sale adjustments for businesses to be				
sold..... \$(19)(a) \$ 18(b) \$543(d) Changes				
in litigation settlements and estimates..... (8)				
362(c) 17 Pension related costs for the WM Holdings'				
defined benefit				
plan..... -- --				
				197(e)
Other(f).....				
(7)	-- (8)	-----	-----	\$(34) \$380 \$749 =====

- (a) Due primarily to (i) an \$11 million contingency payment received by the Company related to a non-revenue producing property written down as an asset impairment in 1998 and (ii) a net gain of \$8 million relating to divestitures.
- (b) Consisted of held-for-sale impairment losses for international operations outside of North America of approximately \$15 million along with an impairment loss for an investment in an operation in Mexico of approximately \$28 million. In addition, the Company recorded a net gain of approximately \$24 million from the Company's re-evaluation of its business alternatives related to its IPPs during the third quarter of 2001 and a gain of approximately \$1 million for other held-for-sale impairment adjustments. See Note 22 for further discussion regarding IPP reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (c) Primarily attributable to agreements that were reached to settle the stockholder class action lawsuit filed against the Company in July 1999 alleging violations of the federal securities laws and the stockholder derivative suit against the Company's auditor for the period, Arthur Andersen LLP, which resulted in a net charge of \$374 million.
- (d) Consisted of (i) a net gain of \$127 million on divestitures of certain international operations, (ii) losses of \$524 million resulting from the recognition of currency translation adjustment upon the divestitures of certain international operations, and (iii) a loss of \$146 million on the impairment of domestic operations, which was net of \$79 million in domestic gains on asset sales and other items.
- (e) See Note 13 for discussion on the termination of WM Holdings defined benefit plan.
- (f) Primarily comprised of reversals of loss contract accruals that were initially recognized as a charge to asset impairments and unusual items.

17. RESTRUCTURING

In 2002, the Company adopted and implemented a new organizational structure to better align collection, transport, recycling and disposal resources within market areas. The Company believes the new structure will yield a number of benefits, including clearer accountability and responsibility for business performance and profitability in specific markets; simplification of structure; cost savings through consolidation of duplicate administrative and other support functions; improved utilization of operating assets; and better customer responsiveness.

In March 2002 all of the Company's operations, other than WTI and CWS, were restructured to reduce the number of field layers of management from four to three and the number of field layers that have administrative staff from four to two. Under the new structure, its approximately 1,200 operating sites, including waste collection depots, transfer stations, landfills and recycling facilities, were restructured into approximately 82 newly established Market Areas. These Market Areas are responsible for the sales and marketing of the Company's services and for directing the delivery of service by the districts. The Market Area is also the profit center, and the districts, all of which used to be profit centers, became cost centers. The largest Market Areas are headed by a Vice President and the others are headed by a General Manager. The Market Areas consolidate financial reporting and provide a range of assistance in the areas of finance and accounting, procurement, people, market planning and development, fleet services, recycling, legal services, engineering, regulatory compliance, safety and public affairs to support the districts. These Market Areas all report to one of the Company's four Groups that divide the United States geographically, into the Eastern, Midwest, Southern and Western operations, which the Company formerly called "Areas." CWS, which was restructured in July 2002, and WTI were the fifth and sixth Areas under the previous structure and continue as the fifth and sixth Groups under the new structure.

The Company recorded \$38 million of pre-tax charges for costs associated with the implementation of the new structure for 2002. These charges include \$36 million for employee severance and benefit costs and \$2 related to abandoned operating lease agreements.

Under the new structure approximately 1,900 field-level administrative and operational positions have been eliminated. The Company's obligation for severance payments will continue into 2003. As of December 31, 2002, payments of \$33 million for employee severance and benefits and for abandoned leases had been recorded against the restructuring liability that was previously established.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

18. EARNINGS PER SHARE

The following reconciles income before extraordinary item and cumulative effect of changes in accounting principle as presented on the consolidated statements of operations with diluted net income for the purposes of calculating diluted earnings per common share (in millions):

YEARS ENDED DECEMBER 31, -----	-----	-----	-----
-----	2002	2001	2000
Income (loss) before extraordinary item and cumulative effect of changes in accounting principle.....	\$823	\$503	\$(97)
Interest on convertible securities, net of income taxes.....	1	--	--
Diluted income (loss) before extraordinary item and cumulative effect of changes in accounting principle.....	824	503	(97)
Extraordinary loss on refinancing or early retirement of debt, net of income tax benefit.....	(3)	(2)	--
Cumulative effect of changes in accounting principle, net of income tax expense.....	2	2	--
	--	--	--
Diluted net income (loss).....	\$823	\$503	\$(97)

The following reconciles the number of common shares outstanding at December 31 of each year to the weighted average number of common shares outstanding and the weighted average number of common and dilutive potential common shares outstanding for the purposes of calculating basic and dilutive earnings per common share (shares in millions):

YEARS ENDED DECEMBER 31, -----	-----	-----	-----
-----	2001	2000	2002
Common shares outstanding at year-end.....	628.0	622.7	594.6
Effect of using weighted average common shares outstanding.....	18.8	(1.8)	(1.4)
Basic common shares outstanding.....	613.4	626.2	621.3
Dilutive effect of common stock options and warrants.....	3.3	4.6	--
Dilutive effect of convertible subordinated notes.....	0.8	--	--
Diluted common shares outstanding.....	617.5	630.8	621.3

For 2001 and 2000, the effect of the Company's convertible subordinated notes and debentures is excluded from the dilutive earnings per share calculation since inclusion of such items would be antidilutive. For 2000, the effect of the Company's common stock options and warrants is excluded from the dilutive earnings per share calculation since inclusion of such items would be antidilutive.

At December 31, 2002, there were approximately 45.2 million shares of common stock potentially issuable with respect to stock options, warrants, and convertible debt, of which approximately 33.0 million shares were not included in the diluted earnings per share computation because their exercise price was greater than the average per share market price of the Company's stock for the year ended 2002. Including the impact of these potentially issuable shares in the current period calculations would have been antidilutive for the periods presented, but could further dilute earnings per share in the future.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

19. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents the change in the Company's equity from transactions and other events and circumstances from nonowner sources and includes all changes in equity except those resulting from investments by owners and distributions to owners. The components of accumulated other comprehensive income (loss) were as follows (in millions):

DECEMBER 31, -----	2002	2001	2000 -
-----	-----	-----	-----
Minimum pension liability			
adjustment, net of taxes of \$1 million,	\$1 million	\$1 million	
and \$92 million for 2002, 2001 and 2000,			
respectively.....			
\$ (1) \$ (1) \$ (3) Accumulated unrealized gain			
(loss) on derivative instruments, net of a tax			
benefit of \$26 million for 2002 and including taxes			
of \$1 million for 2001.....	(39)	1	--
Accumulated unrealized gain on marketable			
securities, including taxes of \$4 million for			
2001.....	-- 6	--	Cumulative foreign
currency translation adjustment.....	(139)		
(154) (123) -----	-----	-----	-----
	\$(179)	\$(148)	\$(126)
=====	=====	=====	

20. COMMITMENTS AND CONTINGENCIES

Financial instruments -- The Company has provided letters of credit, performance bonds, trust agreements, financial guarantees and insurance policies to support tax-exempt bonds, contracts, performance of landfill closure and post-closure requirements, and other obligations. The Company also uses insurance policies issued by a wholly-owned insurance company, the sole business of which is to issue policies to the Company, in order to secure such obligations. In those instances where the use of captive insurance is not allowable, the Company generally has available alternative bonding mechanisms. Because virtually no claims have been made against these financial instruments in the past, and considering the Company's current financial position, management does not expect that these instruments will have a material adverse effect on the Company's consolidated financial statements. The Company has not experienced any unmanageable difficulty in obtaining performance bonds or letters of credit for its current operations. In an ongoing effort, to mitigate risks of future cost increases and reductions in available capacity, the Company continues to evaluate various options to access cost-effective sources of financial assurance.

For the 14 months ended January 1, 2000, the Company insured certain risks, including auto, general and workers' compensation, with Reliance National Insurance Company ("Reliance"), whose parent filed for bankruptcy in June 2001. While it is not possible to predict the outcome of proceedings involving Reliance, the Company believes that because of various insurance guarantee funds and potential recoveries from the liquidation, it is unlikely that events relating to Reliance will have a material adverse impact on the Company's financial statements.

Insurance -- The Company carries a broad range of insurance coverages for protection of its assets and operations from certain risks including pollution legal liability insurance for certain of its disposal sites, transfer stations, recycling and other facilities. The Company's current programs carry self-insurance exposures of up to \$500,000, \$20,000 and \$500,000 per incident with regards to workers compensation, auto and general liability, respectively. Self-insurance claims reserves acquired as part of the WM Holdings Merger were discounted at 5.0% and 5.5% at December 31, 2002 and 2001, respectively. Included in the accompanying balance sheet in accrued liabilities are approximately \$143 million and \$128 million at December 31, 2002 and 2001, respectively, and in other long-term liabilities are approximately \$229 million and \$253 million at December 31, 2002 and 2001, respectively, for insurance-related liabilities for the Company's self-insured

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

exposures. During 2002, the Company incurred approximately \$167 million in self-insurance expenses related to property and casualty risk programs and paid approximately \$176 million to fund related liabilities.

Operating leases -- Rental expense for leased properties was \$166 million, \$162 million and \$186 million during 2002, 2001 and 2000, respectively. These amounts primarily include rents under long-term operating leases, which include landfill lease obligations that may be based on either a percentage of revenue or a rate per ton received. Contractual payments due during the next five years and thereafter on long-term operating lease obligations are as follows (in millions):

2003	2004
2005	2006
	2007
THEREAFTER	
- - - - -	- - - - -
- - - - -	- - - - -
- - - - -	- - - - -
-----	-----
\$149	\$145
\$140	\$133
\$111	\$502

Other long-term commitments -- The Company has the following unconditional purchase obligations.

- The Company's primary purchase obligations are for the purchases of equipment such as containers and trucks. The Company has minimum purchase obligations for these items with a number of counterparties that terminate through 2006.
- The Company has entered into contracts that provide firm disposal rights. These contracts require the Company to dispose of minimum tons of waste at third party disposal facilities through 2019.
- The Company is a party to fuel contracts that expire through 2004. Under these take-or-pay contracts, the Company is obligated to pay for a minimum amount of fuel even if such amounts are not required for operations.

The Company's unconditional purchase obligations are quantity driven. Contractual payments for these purchase obligations during the next five years and thereafter are noted in the table below (in millions). These amounts are estimates based on underlying market values.

2003	2004
2005	2006
	2007
THEREAFTER	
- - - - -	- - - - -
- - - - -	- - - - -
- - - - -	- - - - -
-----	-----
\$338	\$67
\$39	\$39
\$19	\$267

Guarantees -- The Company has entered into the following guarantee agreements associated with its continuing operations.

- WM Holdings, which is 100% owned by the Company ("Parent"), has fully and unconditionally guaranteed the senior indebtedness of the Parent that matures through 2032. The Parent has fully and unconditionally guaranteed the senior indebtedness of WM Holdings that matures through 2026 and WM Holdings' 5.75% convertible subordinated notes due 2005. Performance under these guarantee agreements would be required if either party defaulted on their respective obligations. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in the Company's consolidated balance sheets. See Note 24 for further information.
- The Company has guaranteed the tax-exempt bonds of its subsidiaries. If a

subsidiary fails to meet its obligations associated with tax-exempt bonds as they come due, the Company will be required to perform under the related guarantee agreement. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in the Company's consolidated balance sheets. See Note 7 for information on tax-exempt balances and maturities.

- The Company has guaranteed approximately \$51 million of debt primarily for unaffiliated entities that it accounts for under the equity method of accounting. The related debt, which matures through 2021, is not recorded on the Company's consolidated balance sheets, and the Company has not recorded any liability for these guarantees. The Company has ongoing projects with the entities and has deemed that performance will not be likely to occur.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- Certain of the Company's subsidiaries have guaranteed the market value of certain homeowners' property that are adjacent to landfills. These guarantee agreements extend over the life of the landfill. Under these agreements, the Company would be responsible for the difference between the sale value and the market value. The Company does not believe it is possible to determine the contingent obligation associated with these guarantees.
- The Company or its subsidiaries have indemnified the purchasers of businesses or assets for the occurrence of specified events under certain of its divestiture agreements. The Company does not believe that it is possible to determine the contingent obligations associated with these indemnifications.

The Company believes that it is not reasonably likely that it will be required to perform under these guarantee agreements or that any performance requirement would have a material impact on its consolidated financial statements.

Environmental matters -- The Company's business is intrinsically connected with the protection of the environment. As such, a significant portion of the Company's operating costs and capital expenditures could be characterized as costs of environmental protection. Such costs may increase in the future as a result of legislation or regulation, however, the Company believes that in general it tends to benefit when environmental regulation increases, which may increase the demand for its services, and that it has the resources and experience to manage environmental risk.

As part of its ongoing operations, the Company provides for the present value of estimated closure and post-closure monitoring costs over the estimated operating life of disposal sites as airspace is consumed. The Company has also established procedures to evaluate potential remedial liabilities at closed sites which it owns or operated, or to which it transported waste, including 75 sites listed on the EPA's NPL sites as of December 31, 2002. Where the Company concludes that it is probable that a liability has been incurred, provision is made in the consolidated financial statements.

Estimates of the extent of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult, and the ultimate outcome may differ materially from current estimates. However, the Company believes that its extensive experience in the environmental services industry, as well as its involvement with a large number of sites, provides a reasonable basis for estimating its aggregate liability. As additional information becomes available, estimates are adjusted as necessary. It is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the nonexistence or inability of other PRPs to contribute to the settlements of such liabilities, or other factors could necessitate the recording of additional liabilities which could be material.

The Company or certain of its subsidiaries have been identified as PRPs in a number of governmental investigations and actions relating to waste disposal facilities that may be subject to remedial action under the Comprehensive Environmental Response, Compensation and Liabilities Act of 1980, as amended ("CERCLA" or "Superfund"), or similar state laws. The majority of these proceedings involve allegations that certain subsidiaries of the Company (or their predecessors) transported hazardous substances to the sites in question, often prior to acquisition of such subsidiaries by the Company. CERCLA generally provides for liability for those parties owning, operating, transporting to or disposing at the sites. Such 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 cleanup, which costs could be substantial and could have a material adverse effect on the Company's consolidated financial statements.

As of December 31, 2002, the Company or its subsidiaries had been notified that they are PRPs in connection with 75 locations listed on the NPL. Of the 75 NPL sites at which claims have been made against

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Company, 17 are sites which the Company has come to own over time. All of the NPL sites owned by the Company were initially developed by others as land disposal facilities. At each of the 17 owned facilities, the Company is working in conjunction with the government to characterize or remediate identified site problems. In addition, at these 17 owned facilities, the Company has either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The Company generally expects to receive any amounts due from these parties at, or near, the time that the remedial expenditures are made. The 58 NPL sites at which claims have been made against the Company and that are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of a governmental decision as to the appropriate remedy and an agreement among liable parties as to the share each will pay for implementing that remedy. At others where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, the Company's future costs are uncertain. Any of these matters could have a material adverse effect on the Company's consolidated financial statements.

From time to time, the Company and certain of its subsidiaries are named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of a Company's subsidiary having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, conducted environmental remediation activities at sites. Some of the lawsuits may seek to have the Company or its subsidiaries pay the costs of groundwater monitoring and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While the Company believes it has meritorious defenses to these lawsuits, their 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. Accordingly, it is possible such matters could have a material adverse impact on the Company's consolidated financial statements.

For more information regarding commitments and contingencies with respect to environmental matters, see Note 8.

Litigation -- A group of companies that sold assets in exchange for common stock in March 1996 to WM Holdings brought an action against the Company in March 2000 for breach of contract and fraud, among other things. The parties settled this dispute through arbitration in December 2002.

In December 1999, an individual brought an action against the Company, five former officers of WM Holdings, and WM Holdings' former auditor, Arthur Andersen LLP ("Andersen"), in Illinois state court on behalf of a proposed class of individuals who purchased WM Holdings common stock before November 3, 1994, and who held that stock through February 24, 1998, for alleged acts of common law fraud, negligence, and breach of fiduciary duty. In May 2001, the court granted in part and denied in part the defendants' motion to dismiss. This action is currently in the discovery stage and the extent of possible damages, if any, has not yet been determined.

The Company is one of the defendants in a class action lawsuit arising from events related to its earnings announcements in July and August of 1999. On November 7, 2001, the Company announced that it had reached a settlement agreement with the plaintiff in this case, resolving all claims against it as well as claims against its current and former officers and directors. The agreement provides for a payment of \$457 million to members of the class and for the Company to consent to the certification of a class for the settlement of purchasers or acquirers of the Company's securities from June 11, 1998 through November 9, 1999. The payment provided for by the settlement agreement is included in the accompanying consolidated balance sheets as a component of accrued liabilities. A hearing was held April 29, 2002 at which the settlement was approved. There is currently pending before the court a motion to vacate the final approval order brought by a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

non-class member whose motion to intervene was disallowed by the court. The same would-be intervener, along with one other person (both former participants in WM Holdings' ERISA plans), has also filed a separate case in Washington, D.C. against the Company and others attempting to increase the recovery of a class of ERISA plan participants based on allegations related to both the events alleged in and the settlements relating to the class action against WM Holdings that was settled in 1998 and the complaint in this action.

Also on November 7, 2001, the Company announced that it would receive \$20 million (less fees of approximately \$5 million awarded to counsel for the derivative plaintiffs) as a result of a settlement reached between the derivative plaintiffs and Andersen in a stockholder derivative suit filed on July 3, 2001 in Texas state court against Andersen, as the Company's former independent auditor. The derivative plaintiffs alleged, among other things, that Andersen engaged in professional malpractice in connection with certain services that it performed for the Company. Andersen informed the Company that neither the complaint nor the settlement affected its independence in 2001 or prior years, when Andersen served as the Company's independent auditor. The settlement was approved in May 2002. Andersen's payment will become due at the same time the Company's payment to the plaintiffs in settlement of the class action lawsuit described above becomes due, which is the date that all time periods for appeal have lapsed or the judgment becomes final after all appeals have been exhausted. Because of current motions before the Court and the possible appeals process, the Company cannot predict when the class action payment will be due, and thus cannot predict when the Andersen receivable will become due. Although Andersen has ceased operations the Company presently has no reason to believe that the settlement amount will not be paid and the receivable that the Company has recorded will not be collected. Any prolonged delay in the payment ultimately becoming due could make such payment more uncertain, depending on Andersen's financial status at such time. If such uncertainties develop in the future, it is reasonably possible that the Company will be required to write down the receivable up to the full amount due from Andersen.

On June 29, 2000, a putative class action was filed against the Company in Delaware state court by a class of plaintiffs in the class action lawsuit. The plaintiffs allege that the Company stock they received in exchange for their Eastern Environmental Services, Inc. shares was overvalued for the same reasons alleged in the consolidated class actions in Texas. The named plaintiffs in the Delaware case excluded themselves from the Texas class action settlement and pursued their claims as individuals, which were resolved in December 2002.

Three groups of stockholders have filed separate lawsuits in state courts in Texas and federal court in Illinois against the Company and certain of its former officers. The petitions allege that the plaintiffs are substantial stockholders of the Company's common stock who intended to sell their stock in 1999, or to otherwise protect themselves against loss, but that the individual defendants made false and misleading statements regarding the Company's prospects that, along with public statements, induced the plaintiffs to retain their stock or not to take other measures. Plaintiffs assert that the value of their retained stock declined dramatically. Plaintiffs assert claims for fraud, negligent misrepresentation, and conspiracy. The Texas state court granted the Company's motion for summary judgment in the first of these cases in March 2002, which the plaintiffs have appealed. The other two cases are in early stages, and the extent of damages, if any, cannot yet be determined.

The Company's business is intrinsically connected with the protection of the environment, and there is the potential for the unintended or unpermitted discharge of materials into the environment. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of December 31, 2002, there were eight proceedings involving Company subsidiaries where the sanctions involved in each could potentially exceed \$100,000. The matters involve allegations that subsidiaries (i) operated a hazardous waste incinerator in such a way that its air emissions exceeded permit limits, (ii) engaged in the importation and disposal of hazardous waste in contravention of applicable federal regulations, (iii) are responsible for remediation of landfill gas and chemical compounds

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

required pursuant to a Unilateral Administrative Order associated with an NPL site, (iv) are responsible for late performance of work required under a Unilateral Administrative Order, (v) improperly operated a solid waste landfill and caused excess odors, (vi) improperly operated a solid waste landfill by failing to maintain required records, properly place and cover waste and adhere to proper leachate levels, (vii) violated the state's clean water act, and (viii) did not comply with air regulations requiring control of emissions at a closed landfill. The Company does not believe that the fines or other penalties in these matters will, individually or in the aggregate, have a material adverse effect on the Company's financial condition or results of operations.

It is not possible at this time to predict the impact that the above lawsuits, proceedings, investigations and inquiries may have on the Company, nor is it possible to predict whether any other suits or claims may arise out of these matters in the future. The Company and each of its subsidiaries intend to defend themselves vigorously in all the above matters. However, it is reasonably possible that the outcome of any of these matters may have a material adverse impact on the Company's financial conditions or results of operations in one or more future periods.

The Company and certain of its subsidiaries are also currently involved in other routine civil litigation and governmental proceedings relating to the conduct of their business. The Company does not believe that any of these matters will have a material adverse impact on the Company's consolidated financial statements.

Other -- The Company was previously a party to an agreement pursuant to which it was obligated to purchase certain operating assets in Montreal, Canada no later than December 2005. However, there was an option in the agreement that allowed either party to cause an earlier purchase. The purchase price was based on certain calculations of the financial performance of the assets to be acquired, which were to be determined at the time of purchase. In addition, the Company had subcontracted certain business to the owner of the assets to be purchased. A number of commercial disputes evolved into litigation between the parties. In a series of transactions completed in November 2002, the existing agreements were terminated, the Company made a lump sum payment and the litigation was settled. Additionally, the Company sold its Montreal hauling business and entered into a long-term put or pay disposal agreement. The Company incurred a net settlement cost pursuant to the transactions of approximately \$26 million.

Tax matters -- The Company is currently under audit by the Internal Revenue Service and from time to time is audited by other taxing authorities. The Company is fully cooperating with all audits, but plans to defend its positions vigorously. These audits are in various stages of completion. Results of audit assessments by taxing authorities could have a material effect on the Company's quarterly or annual cash flows. However, the Company does not believe that any of these matters will have a material adverse impact on the Company's results of operations.

21. VARIABLE INTEREST ENTITIES

On June 30, 2000, two limited liability companies ("LLCs") were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that the Company operates under an agreement with the owner. John Hancock Life Insurance Company ("Hancock") has a 99.5% ownership in one of the LLCs, the second LLC is 99.5% collectively owned by Hancock and the CIT Group ("CIT") and the Company owns the remaining 0.5% interest in each. Hancock and CIT made an initial investment of approximately \$167 million in the LLCs. The LLCs used these proceeds to purchase the three waste-to-energy facilities that the Company operates and assumed the seller's indebtedness related to these facilities. Under the LLC agreements, the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all the members of the LLCs to dissolve, (ii) December 31, 2063, (iii) the entry of a decree of judicial dissolution under the Delaware Limited Liability Company Act, or (iv) the LLCs ceasing to own any interest in these waste-to-energy facilities. Income, losses and cash flows are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, the amounts will be allocated 20% to Hancock and CIT and 80% to the Company. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

does not expect Hancock and CIT to achieve the targeted returns in 2003 or at any time during the initial base term of the lease. The Company accounts for the underlying leases as operating leases. The Company is required under certain circumstances to make capital contributions to the LLCs in the amount of the difference between the stipulated loss amounts and termination values under the LLC agreements to the extent they are different from the underlying lease agreements. The Company believes that the likelihood of the occurrence of these circumstances is remote.

During 2002, the Company had aggregate lease payments of approximately \$62 million. Under the LLC agreements, if the Company exercises certain renewal options under the leases, it will be required to make capital contributions to the LLCs for the difference, if any, between fair market rents and the scheduled renewal rents. As of December 31, 2002, the remaining aggregate lease commitments related to these waste-to-energy facilities are \$526 million, which includes \$158 million in required capital contributions to the LLC for the amount of the difference between bargain renewals and the fair value of the lease. These minimum lease payments are included in the table of non-cancelable rental obligations as discussed in Note 20.

The Company is the manager of the LLCs but there are significant limitations on the powers of the manager under the LLC agreements. Accordingly, the Company accounts for its interest in the LLCs under the equity method of accounting. These investments have a carrying value of approximately \$1 million at both December 31, 2002 and December 31, 2001. If the Company was required to consolidate the LLCs, it would record approximately \$414 million in assets, and \$208 million of debt as of December 31, 2002. The remaining balance that would be recorded would primarily be minority interest. There would be no material net impact to its results of operations if the Company consolidated the LLCs instead of accounting for them under the equity method.

22. OPERATIONS HELD-FOR-SALE

The Company adopted SFAS No. 144 on January 1, 2002. In accordance with SFAS No. 144, all held-for-sale assets are classified as current within other current assets or accrued liabilities as applicable. These assets are actively being marketed for sale and are expected to be sold in 2003. The Company's held-for-sale assets at December 31, 2002 had balances of \$41 million included in other current assets and \$12 million included in other current liabilities. These assets consist of surplus real estate along with other non-integrated operations within the WTI segment.

At the beginning of 2001, the Company had its IPPs classified as held-for-sale. The Company re-evaluated its business alternatives related to its IPPs during 2001, and based on these assessments, the Company decided to hold and operate its IPPs with the exception of one facility. Accordingly, the Company reclassified all but one of its IPPs from held-for-sale to held-for-use in 2001. As a result of this reclassification, the Company reversed its previously recorded held-for-sale impairment loss of \$109 million through asset impairments and unusual items and recorded depreciation of \$6 million that had been suspended through the held-for-sale period. The Company also subjected its IPPs to impairment testing on a held-for-use basis, which resulted in an impairment charge of \$85 million, and is a component of asset impairments and unusual items in 2001.

At December 31, 2001, the primary components within operations held-for-sale were non-integrated operations within the WTI segment, other non-integrated operations within the remaining NASW segments and the Company's surplus real estate portfolio. These assets had balances of \$96 million included in other current assets and \$36 million included in other current liabilities.

Had the Company not classified any operations as held-for-sale, the depreciation expense would have been greater by \$1 million, \$7 million and \$99 million for 2002, 2001 and 2000, respectively.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

23. QUARTERLY FINANCIAL DATA (UNAUDITED)

Historically, the Company's quarterly operating results have fluctuated. The fluctuations may be caused by many factors, including revenue mix and general economic conditions. The Company's revenues and income from operations typically reflect seasonal patterns. The Company's operating revenues tend to be somewhat lower in the winter months, primarily due to the lower volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where the Company operates also tend to decrease during the winter months. The Company's first and fourth quarter results of operations typically reflect this seasonality.

The following table summarizes the unaudited quarterly results of operations for 2002 and 2001 (in millions, except per share amounts):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	QUARTER	QUARTER
	QUARTER(C)	QUARTER(C)	QUARTER(C)	QUARTER(C)	QUARTER(C)	QUARTER(C)
----- 2002(a) Operating						
revenues.....	\$2,609	\$2,825	\$2,896	\$2,812		
Income from operations(b).....	464	465	383		332	
Income before extraordinary item and cumulative effect of change in accounting principle.....	464	465	383		332	
Net income.....	138	217	231	236	231	238
Income per common share:						
Basic: Income before extraordinary item and cumulative effect of change in accounting principle.....	0.22	0.35	0.38	0.39		
Net income.....	0.22	0.35	0.38	0.39		
Diluted: Income before extraordinary item and cumulative effect of change in accounting principle.....	0.22	0.35	0.38	0.39		
Net income.....	0.22	0.35	0.38	0.39		

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	QUARTER	QUARTER
	QUARTER(D)	QUARTER(D)	QUARTER(D)	QUARTER(D)	QUARTER(D)	QUARTER(D)
----- 2001 Operating						
revenues.....	\$2,719	\$2,915	\$2,897	\$2,791		
Income from operations.....	441	115	383		344	
Income before extraordinary item and cumulative effect of change in accounting principle.....	441	115	383		344	
Net income.....	124	191	30	158	31	158
Income per common share:						
Basic: Income before extraordinary item and cumulative effect of change in accounting principle.....	0.20	0.31	0.05	0.25		
Net income.....	0.20	0.31	0.05	0.25		
Diluted: Income before extraordinary item and cumulative effect of change in accounting principle.....	0.20	0.31	0.05	0.25		
Net income.....	0.20	0.30	0.05	0.25		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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- (a) SFAS No. 142 required that amortization of all goodwill cease on January 1, 2002. See Note 6 for further discussion.
 - (b) In March 2002, the Company recorded a \$37 million pre-tax charge for costs associated with the implementation of its new structure. In July 2002, the Company recorded an additional \$1 million pre-tax charge for its subsequent restructuring of CWS. See Note 17 for further discussion.
 - (c) The Company experienced an increase in other income in 2002 as compared to prior years due primarily to the sale of an equity investment. In 2002, an entity in which the Company held an approximately 17% interest was acquired by another company. The Company had a note from the acquired company that was paid off in connection with the acquisition and the Company also recorded a pre-tax gain of approximately \$43 million in the fourth quarter of 2002 for the sale of the related shares. Additionally, during the fourth quarter of 2002, the Company elected to repay approximately \$145 million of the Company's senior debt issuances prior to their maturity dates. In connection with this repayment, the Company recognized an extraordinary charge of approximately \$2 million, net of tax benefit, for the prepayment penalties and other costs related to the retired debt. In the fourth quarter of 2002, the Company also recorded a tax benefit of approximately \$31 million related to the carry-back of losses by the Company's Dutch subsidiary. Additionally, a legal dispute was resolved and a net settlement cost of \$26 million was recognized in the fourth quarter of 2002.
 - (d) Included in the third quarter 2001 income from operations is a pre-tax charge to asset impairments and unusual items expense of \$354 million primarily attributable to agreements that were reached to settle the shareholder class action lawsuit filed against the Company in July 1999. See Note 16 for further discussion.

Basic and diluted earnings per common share for each of the quarters presented above is based on the respective weighted average number of common and dilutive potential common shares outstanding for each period and the sum of the quarters may not necessarily be equal to the full year basic and diluted earnings per common share amounts. For certain periods presented, the effect of the Company's common stock options and warrants and the effect of the Company's convertible subordinated notes and debentures are excluded from the diluted earnings per share calculations since inclusion of such items would be antidilutive for those periods.

24. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

WM Holdings ("Guarantor"), which is 100% owned by the Parent, has fully and unconditionally guaranteed all of the senior indebtedness of the Parent, as well as the Parent's 4% convertible subordinated notes that matured and were repaid in February 2002. The Parent has fully and unconditionally guaranteed all of the senior indebtedness of WM Holdings, as well as WM Holdings' 5.75% convertible subordinated debentures due 2005. However, none of the Company's, nor WM Holdings' debt is guaranteed by any of the Parent's indirect subsidiaries or WM Holdings' subsidiaries ("Non-Guarantors"). Accordingly, the following condensed consolidating balance sheets as of December 31, 2002 and 2001 and the related condensed consolidating statements of operations for 2002, 2001 and 2000, along with the related statements of cash flows, have been provided below (in millions).

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEETS

DECEMBER 31, 2002

PARENT GUARANTOR	NON-GUARANTORS		
ELIMINATIONS CONSOLIDATED -----			

- ASSETS Current assets: Cash and cash equivalents.....	\$ 316	\$ --	\$
(52) \$ -- \$ 264 Other current assets.....	--	4 2,432	-
- 2,436 -----			
---- 316 4 2,380 -- 2,700 Property and equipment, net.....	--	--	
10,612 -- 10,612 Intercompany and investment in subsidiaries.....			
9,484 5,694 (7,277) (7,901) -- Other assets.....	57		
123 6,139 -- 6,319 -----			
----- Total assets.....	\$9,857		
\$5,821 \$11,854 \$(7,901) \$19,631 =====			
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities: Current portion of long-term debt.....	\$ --	\$ 112	\$ 119
\$ -- \$ 231 Accounts payable and other accrued liabilities.....			
73 32 2,837 -- 2,942 -----			
- ----- 73 144 2,956 -- 3,173			
Long-term debt, less current portion.....	4,476	1,863	1,723 -- 8,062
Other liabilities.....	--	--	
- 3,069 -- 3,069 -----			
----- Total liabilities.....	4,549		
2,007 7,748 -- 14,304 Minority interest in subsidiaries.....	--	--	19 -- 19
Stockholders' equity.....	5,308	3,814	
4,087 (7,901) 5,308 -----			
----- Total liabilities and stockholders' equity.....	\$9,857	\$5,821	\$11,854 \$(7,901) \$19,631
=====			

DECEMBER 31, 2001

PARENT GUARANTOR	NON-GUARANTORS		
ELIMINATIONS CONSOLIDATED -----			

- ASSETS Current assets: Cash and cash equivalents.....	\$ 757	\$ --	\$
(27) \$ -- \$ 730 Other current assets.....	--	--	2,394
-- 2,394 -----			
---- 757 -- 2,367 -- 3,124 Property and equipment, net.....	--	--	
10,357 -- 10,357 Intercompany and investment in subsidiaries.....			
8,989 5,517 (8,665) (5,841) -- Other assets.....	30		
21 5,958 -- 6,009 -----			
----- Total assets.....	\$9,776		
\$5,538 \$10,017 \$(5,841) \$19,490 =====			
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities: Current portion of			

long-term debt.....	\$ 431	\$ --	\$ 84	\$
-- \$ 515 Accounts payable and other accrued				
liabilities.....				
73 51 3,082 -- 3,206 -----				
- -----	504	51	3,166	-- 3,721
Long-term debt, less current portion.....	3,860	2,645	1,204	-- 7,709
Other				
liabilities.....	20	2		
2,633 -- 2,655 -----				
--- -----	Total			
liabilities.....	4,384			
2,698 7,003 -- 14,085	Minority interest			
in subsidiaries.....	--	--	13	-- 13
Stockholders'				
equity.....	5,392	2,840		
3,001 (5,841) 5,392 -----				
-----	Total liabilities and			
stockholders'				
equity.....				
\$9,776 \$5,538 \$10,017 \$(5,841) \$19,490				
=====	=====	=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

PARENT GUARANTOR	NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED

YEAR ENDED DECEMBER			
31, 2002 Operating			
revenues.....			\$ -- \$
-- \$11,142	\$ -- \$11,142	Costs and	
expenses.....			-- --
9,498 -- 9,498			-----
		Income from	
operations.....			-- --
1,644 -- 1,644			-----
		Other income (expense): Interest	
income (expense), net.....		(240)	
(150) (51) -- (441)	Equity in subsidiaries,		
net of taxes.....	974 1,071 -- (2,045)		
	- Minority		
interest.....			-- --
(7) -- (7)	Other,		
net.....			-- --
51 -- 51			-----
734 921 (7) (2,045) (397)			-----
		Income before income	
taxes.....	734 921 1,637		
(2,045) 1,247	Provision for (benefit from)		
income taxes.....	(88) (55) 567 -- 424		
		Income	
		before extraordinary item and cumulative	
		effect of change in accounting	
principle.....	822 976 1,070 (2,045) 823		
	Extraordinary		
item.....	-- (2) (1)		
-- (3)	Cumulative effect of change in		
	accounting		
principle.....			-----
-- -- 2 -- 2			-----
		Net	
income.....			
\$ 822 \$ 974 \$ 1,071 \$(2,045) \$ 822	=====		
=====	=====	=====	=====
		YEAR ENDED	
		DECEMBER 31, 2001 Operating	
revenues.....			\$ -- \$
-- \$11,322	\$ -- \$11,322	Costs and	
expenses.....			-- --
10,039 -- 10,039			-----
		Income from	
operations.....			-- --
1,283 -- 1,283			-----
		Other income (expense): Interest	
income (expense), net.....		(278)	
(184) (42) -- (504)	Equity in subsidiaries,		
net of taxes.....	677 792 -- (1,469)		
	Minority		
interest.....			-- --
(5) -- (5)	Other,		
net.....			-- --
13 -- 13			-----
399 608 (34) (1,469) (496)			-----
		Income before income	
taxes.....	399 608 1,249		
(1,469) 787	Provision for (benefit from)		
income taxes.....	(104) (69) 457 -- 284		
		Income	
		before extraordinary item and cumulative	
		effect of change in accounting	
principle.....	503 677 792 (1,469) 503		
	Extraordinary		
item.....	-- -- (2)		
-- (2)	Cumulative effect of change in		
	accounting		
principle.....			-----
-- -- 2 -- 2			-----
		Net	
income.....			

\$ 503	\$ 677	\$ 792	\$(1,469)	\$ 503	=====	=====
=====						
YEAR ENDED DECEMBER						
31, 2000 Operating						
revenues.....				\$ --	\$	
-- \$12,492				\$ --	\$12,492	Costs and
expenses.....				--	--	
11,454	--	11,454				-----

						Income from
operations.....				--	--	
1,038	--	1,038				-----

						Other income (expense): Interest
income (expense), net.....				(431)		
(240)	(46)	--	(717)			Equity in subsidiaries,
net of taxes.....				172	322	-- (494) --
						Minority
interest.....				--	--	
				(23)	--	(23) Other,
net.....				--	--	
23	--	23				-----

						(259) 82 (46) (494) (717) -----

						Income (loss) before income
taxes.....				(259)	82	992 (494) 321
						Provision for (benefit from) income
taxes.....				(162)	(90)	670 -- 418 -----

						Net income
(loss).....				\$ (97)		
\$ 172	\$ 322	\$ (494)	\$ (97)	=====	=====	
				=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

PARENT GUARANTOR NON-GUARANTORS ELIMINATIONS CONSOLIDATED

YEAR ENDED DECEMBER 31, 2002 Cash flows from operating activities: Net

income..... \$
 822 \$ 974 \$ 1,071 \$(2,045) \$ 822 Equity in earnings of
 subsidiaries, net of taxes..... (974) (1,071) --
 2,045 -- Other adjustments and
 changes..... 56 15 1,260 -- 1,331
 ----- Net cash provided
 by (used in) operating activities..... (96) (82) 2,331
 -- 2,153 ----- Cash
 flows from investing activities: Acquisitions of
 businesses, net of cash acquired..... -- -- (162) --
 (162) Capital
 expenditures..... -- --
 (1,287) -- (1,287) Proceeds from divestitures of
 businesses, net of cash divested, and other asset
 sales..... -- -- 175 -- 175 Net
 receipts from restricted funds..... 6
 -- 267 -- 273

Other.....
 -- -- 39 -- 39 ----- Net
 cash provided by (used in) investing activities..... 6
 -- (968) -- (962) -----

Cash flows from financing activities: New
 borrowings.....
 894 -- -- -- 894 Debt
 repayments.....
 (850) (660) (81) -- (1,591) Common stock
 repurchases..... (982) -- --
 -- (982) Cash

dividends..... (6)
 -- -- -- (6) Exercise of common stock options and
 warrants..... 27 -- -- -- 27 (Increase) decrease
 in intercompany and investments, net... 566 742 (1,308) --

----- Net cash
 provided by (used in) financing activities..... (351)
 82 (1,389) -- (1,658) -----
 --- Effect of exchange rate changes on cash and cash
 equivalents.....
 -- -- 1 -- 1

Decrease in cash and cash
 equivalents..... (441) -- (25) -- (466)
 Cash and cash equivalents at beginning of
 period..... 757 -- (27) -- 730 -----
 --- Cash and cash equivalents at end of
 period..... \$ 316 \$ -- \$ (52) \$ -- \$ 264

===== YEAR ENDED
 DECEMBER 31, 2001 Cash flows from operating activities:
 Net

income..... \$
 503 \$ 677 \$ 792 \$(1,469) \$ 503 Equity in earnings of
 subsidiaries, net of taxes..... (677) (792) -- 1,469
 -- Other adjustments and
 changes..... 84 20 1,748 -- 1,852
 ----- Net cash provided
 by (used in) operating activities..... (90) (95) 2,540
 -- 2,355 ----- Cash
 flows from investing activities: Acquisitions of
 businesses, net of cash acquired..... -- -- (116) --
 (116) Capital
 expenditures..... -- --
 (1,328) -- (1,328) Proceeds from divestitures of
 businesses, net of cash divested, and other asset
 sales..... -- -- 58 -- 58 Net
 receipts from restricted funds..... 12
 -- 126 -- 138

Other.....
 -- -- 16 -- 16 ----- Net
 cash provided by (used in) investing activities.....
 12 -- (1,244) -- (1,232) -----
 ----- Cash flows from financing activities: New

borrowings.....	1,267	--	361	--	1,628	Debt
repayments.....	(1,307)	(400)	(431)	--	(2,138)	Cash
dividends.....	(6)					(6)
-- -- --	(6)					Exercise of common stock options and warrants..... 50 -- -- -- 50
Other.....	(19)	--	(19)			(Increase) decrease in intercompany and investments, net... 657 481 (1,138) -- -- -----
						----- Net cash provided by (used in) financing activities..... 661 81 (1,227) -- (485) -----
						----- Effect of exchange rate changes on cash and cash equivalents.....
-- -- (2) -- (2) -----						Increase (decrease) in cash and cash equivalents..... 583 (14) 67 -- 636 Cash and cash equivalents at beginning of period..... 174 14 (94) -- 94 ----- Cash and cash equivalents at end of period..... \$ 757 \$ -- \$ (27) \$ -- \$ 730 =====
						===== YEAR ENDED DECEMBER 31, 2000 Cash flows from operating activities: Net income (loss)..... \$ (97) \$ 172 \$ 322 \$ (494) \$ (97) Equity in earnings of subsidiaries, net of taxes..... (172) (322) -- 494 - - Other adjustments and changes..... 34 5 2,183 -- 2,222 ----- Net cash provided by (used in) operating activities..... (235) (145) 2,505 -- 2,125 ----- Cash flows from investing activities: Short-term investments..... -- -- 54 -- -- 54 -- 54 Acquisitions of businesses, net of cash acquired..... -- -- (231) -- (231) Capital expenditures..... -- -- (1,313) -- (1,313) Proceeds from divestitures of businesses, net of cash divested, and other asset sales..... -- -- 2,552 -- 2,552 Net receipts from restricted funds..... 20 -- (45) -- (25)
Other.....	35	--	35			Net cash provided by investing activities..... 20 -- 1,052 -- 1,072 ----- -- Cash flows from financing activities: New borrowings..... 270 -- 34 -- 304 Debt repayments..... (2,422) (844) (331) -- (3,597) Cash dividends..... (6) -- -- -- (6) Exercise of common stock options and warrants..... 20 -- -- -- 20 (Increase) decrease in intercompany and investments, net... 2,443 999 (3,442) -- -- ----- Net cash provided by (used in) financing activities..... 305 155 (3,739) -- (3,279) ----- Effect of exchange rate changes on cash and cash equivalents.....
-- -- (5) -- (5) -----						Increase (decrease) in cash and cash equivalents..... 90 10 (187) -- (87) Cash and cash equivalents at beginning of period..... 84 4 93 -- 181 ----- Cash and cash equivalents at end of period..... \$ 174 \$ 14 \$ (94) \$ -- \$ 94 =====

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PRACTICE UPON
ADOPTION OF
DESCRIPTION
CURRENT
PRACTICE SFAS
NO. 143 - -----

----- Closure
Includes last
final capping
event, final No
change, except
that last final
capping portion
of methane gas
collection
system event of
each landfill
will be treated
as to be
constructed,
demobilization,
and a part of
final capping
the routine
maintenance
costs incurred
after site
ceases to
accept waste,
but prior to
being certified
closed - -----

----- Post-
closure
Includes
routine
monitoring and
No change
maintenance of
a landfill
after it has
closed, ceased
to accept waste
and been
certified as
closed by the
applicable
state
regulatory
agency - -----

----- DISCOUNT
RATE: Risk-free
rate (5.0% at
December 31,
Credit-
adjusted, risk-
free rate
(7.25%) 2002) -

COST ESTIMATES:
Costs are
estimated based
on performance,
No change,
except that the
cost of any
principally by
third parties,
with a
activities
performed
internally must
be small
portion
performed by
the Company
increased to
represent an
estimate of the
amount a third
party would
charge to
perform such
activity - ----

INFLATION: Cost
is inflated to
period of
performance
Inflation rate
changed to 2.5%
effective (2.0%
at December 31,
2002) January
1, 2003 - -----

RECOGNITION OF
LIABILITY:
Final Capping
Costs are
capitalized as
spent, except
All final
capping will be
recorded as a
for the last

final capping event that liability and asset when incurred; the occurs after the landfill closes, which discounted cash flow associated with each is accounted for as part of closure final capping event is recorded to the accrued liability with a corresponding increase to landfill assets as airspace is consumed related to the specific final capping event -

Closure and post-closure Accrued over the life of the landfill; Accrued over the life of the landfill; the discounted cash flow associated with the discounted cash flow associated with such liabilities is recorded to accrued such liabilities is recorded to accrued liabilities, with a corresponding charge liabilities, with a corresponding to cost of operations as airspace is increase in landfill assets as airspace consumed is consumed - ----

STATEMENT OF OPERATIONS
EXPENSE:
Liability

accrual Expense
charged to cost
of operations
at Not
applicable same
amount accrued
to liability -

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PRACTICE
UPON
ADOPTION OF
DESCRIPTION
CURRENT
PRACTICE
SFAS NO.
143 - -----

-- Landfill
asset
amortization
Not
applicable
Landfill
asset is
amortized
to
depreciation
and
amortization
expense as
airspace is
consumed
over life
of specific
final
capping
event or
life of
landfill
for closure
and post-
closure - -

Accretion
Expense,
charged to
cost of
operations,
Expense,
charged to
cost of
operations,
is accrued

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

inception. The initial recognition and initial measurement provisions of FIN 45 are effective for the Company on a prospective basis to guarantees issued after December 31, 2002. The Company will record the fair value of future material guarantees, if any. See Note 20 for current disclosure requirements related to the Company's guarantee arrangements.

FIN 46

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"). FIN 46 requires that unconsolidated variable interest entities must be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual benefits. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to existing variable interest entities in the periods beginning after June 15, 2003. See Note 21 for discussion on the Company's existing variable interests. Management has yet to determine the impact that the adoption of FIN 46 will have on the Company's consolidated financial statements.

OTHER ACCOUNTING CHANGES

Repairs and Maintenance

Through December 31, 2002, the Company accrued in advance for major repairs and maintenance expenditures at its waste-to-energy facilities and IPPs. Effective January 1, 2003, the Company changed its policy from this method to one that expenses these costs as they are incurred. In the first quarter of 2003, the Company expects to record approximately \$30 million, net of taxes, as a credit to cumulative effect of an accounting change.

Loss Contract Accrual

Through December 31, 2002, the Company accrued for future losses for contracts that over the contract life were projected to have direct costs greater than revenues. Effective January 1, 2003, the Company changed its policy from this method to one that expenses these costs as they are incurred. In the first quarter of 2003, the Company expects to record approximately \$30 million, net of taxes, as a credit to cumulative effect of an accounting change.

26. SUBSEQUENT EVENTS

In January 2003, the Company announced that it had formed a new recycling entity, Recycle America Alliance, L.L.C. ("RAA"), a wholly-owned subsidiary of the Company, in an effort to optimize the capacity and improve the profitability of the Company's recycling operations. In connection with the formation of RAA, the Company transferred substantially all of the recycling assets and businesses of its other subsidiaries to RAA. RAA's strategy includes combining its assets and operations with a number of key processors and marketers. On January 10, 2003, the Peltz Group, the largest privately-held recycler in the United States, contributed all of its assets to RAA in exchange for an initial payment by RAA of approximately \$58 million in cash and the issuance of approximately 9% of the equity interest in RAA.

In February 2003, the Company announced that it will implement further restructuring to reorganize operations into a smaller number of Market Areas in an effort to reduce overhead costs. As part of the restructuring, there will be a net workforce reduction of about 700 employees and 270 contract workers. The Company anticipates a charge of approximately \$23 million for this restructuring.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

A change in independent auditors from Arthur Andersen LLP to Ernst and Young LLP was reported in a Current Report on Form 8-K dated March 27, 2002.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item concerning directors of the Company is set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement for its 2003 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

Below are the names and ages, as of December 31, 2002, of the Company's executive officers and summaries of their business experience for the past 5 years.

NAME AGE POSITIONS HELD
AND BUSINESS EXPERIENCE
FOR PAST FIVE YEARS - --

----- A.

Maurice

Myers.....
62 - President, CEO and
Chairman of the Board
since November 1999. -
Chairman of the Board of
Yellow Corporation July
1996-November 1999. -
President and CEO of
Yellow Corporation April
1996-November 1999.
Barry H.

Caldwell.....

42 - Senior Vice
President-Government
Affairs and Corporate
Communications since
September 23, 2002. -
Vice President --
Government Relations,
CIGNA Corporation
October 2000-September
2002. - Vice President -
- Federal Affairs for
the Pharmaceutical
Research and
Manufacturers of America
October 1996-September
2000. Robert P.

Damico.....

54 - Senior Vice
President -- Midwest
Group since July 1998. -
District Manager,
Division Manager and
then Region Manager of
the Mountain Region for
WM Holdings, a wholly-
owned subsidiary of the
Company, from 1980-July
1998. Robert E. Dees,
Jr. 52 -
Senior Vice President --
People since May 2000. -
Senior Vice President --
Human Resources of
AutoNation, Inc. 1997-
2000. Richard T.

Felago.....

54 - Senior Vice

President -- Eastern Group since May 2001. - President of Wheelabrator Technologies Inc., a wholly-owned subsidiary of the Company, May 1999-May 2001. - Vice President -- Marketing and Business Development of Wheelabrator Technologies Inc. 1996-May 1999. David R. Hopkins..... 59 - Senior Vice President -- Southern Group since March 2000. - Senior Vice President -- International Operations of the Company and CEO of Waste Management International, Inc., a wholly-owned subsidiary of the Company, November 1998-March 2000 Ronald H. Jones..... 52 - Vice President and Treasurer since 1995. J. Drennan Lowell..... 46 - President of Wheelabrator Technologies Inc. since May 2001. - Vice President -- Finance of Wheelabrator Technologies Inc. from May 1999-May 2001. - Self-employed Consultant from July 1998-May 1999. - Vice President and CFO of U.S. Industrial Services, Inc. from September 1997-July 1998. Lawrence O'Donnell, III..... 45 - Executive Vice President -- Western Group since July 2001. - Executive Vice President, General Counsel and Corporate Secretary from March 2001-July 2001. - Senior Vice President, General Counsel and Secretary from February 2000-March 2001. - Vice President and General Counsel of Baker Hughes Incorporated 1995-February 2000.

NAME AGE POSITIONS HELD
AND BUSINESS EXPERIENCE
FOR PAST FIVE YEARS - ---

----- Domenic

Pio.....

39 - President of
Canadian Waste Services,
Inc., a wholly-owned
subsidiary of the
Company, since April
2001. - Area Controller
of Canadian Waste
Services, Inc. from April
1998 to April 2001. -
Division Vice President,
South Western Ontario,
Canadian Waste Services,
Inc. from January 1997 to
April 1998. Thomas L.

Smith..... 63

- Senior Vice President -
- Information Systems
since November 1999. -
Vice President of
Information Systems of
Yellow Services, Inc.
February 1997-November
1999. Robert G.

Simpson..... 50

- Vice President and
Chief Accounting Officer
since May 2002. - Vice
President -- Taxation
November 1998 to May
2002. - Vice President
and General Manager of
Tenneco Business Services
July 1997-November 1998.

David P.

Steiner.....

42 - Senior Vice
President, General
Counsel and Corporate
Secretary since July
2001. - Vice President
and Deputy General
Counsel November 2000-
July 2001. - Partner,
Phelps Dunbar L.L.P. 1990
to November 2000. James
E.

Trevathan.....

49 - Senior Vice
President -- Sales and
Marketing since May 2000.
- Vice President -- Sales
July 1998-May 2000. -
Regional Vice President -
- Industrial of WM
Holdings 1997-July 1998.
William L.

Trubeck..... 56

- Executive Vice
President, Chief
Administrative Officer
and Chief Financial
Officer since May 2002. -
Executive Vice President
and CFO from March 2001
to April 2002. - Senior
Vice President and CFO
March 2000-March 2001. -
Senior Vice President --
Finance and CFO of
International Multifoods,
Inc. 1997-March 2000. -

President, Latin American
Operation of
International Multifoods,
Inc. 1998-March 2000.
Charles A.

Wilcox..... 50
- Senior Vice President -
- Market Planning and
Development since May
2001. - Senior Vice
President -- Eastern Area
July 1998 to May 2001. -
Region Vice President --
Central Region August
1996-July 1998. Charles
E. Williams.....
53 - Senior Vice
President -- Operations
since May 2000. - Vice
President Environmental
Compliance/Engineering
1996-May 2000.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth under the caption -- "Executive Compensation" in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is set forth under the caption "Director and Officer Stock Ownership" in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is set forth under the caption "Related Party Transactions" in the 2003 Proxy Statement and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Form 10-K, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Administrative Officer (Principal Financial Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Administrative Officer, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's

internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART IV

ITEM 15. FINANCIAL STATEMENT SCHEDULES, EXHIBITS, AND REPORTS ON FORM 8-K

(a)(1) Consolidated Financial Statements:

Report of Independent Auditors
Report of Independent Public Accountants
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000
Notes to Consolidated Financial Statements

(a)(2) Consolidated Financial Statement Schedules:

Schedule II -- Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is not significant or is included in the financial statements or notes thereto, or is not applicable.

(a)(3) Exhibits:

EXHIBIT NUMBER*	DESCRIPTION - -----
----- 3.1 --	Second Amended and Restated Certificate of Incorporation [Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2002]. 3.2 --
	Bylaws as amended [Incorporated by reference to Exhibit 3.2 to Form 10-Q for the quarter ended June 30, 2002]. 4.1 --
	Specimen Stock Certificate [Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 1998]. 4.2 --
	Indenture for Subordinated Debt Securities dated February 1, 1997, among

the
Registrant
and Texas
Commerce Bank
National
Association,
as trustee
[Incorporated
by reference
to Exhibit
4.1 to Form
8-K dated
February 7,
1997]. 4.3 --
Indenture for
Senior Debt
Securities
dated
September 10,
1997, among
the
Registrant
and Texas
Commerce Bank
National
Association,
as trustee
[Incorporated
by reference
to Exhibit
4.1 to Form
8-K dated
September 10,
1997]. 10.1 -
- 1993 Stock
Incentive
Plan
[Incorporated
by reference
to Exhibit
10.2 to Form
10-K for the
year ended
December 31,
1998]. 10.2 -
- 1996 Stock
Option Plan
for Non-
Employee
Directors
[Incorporated
by reference
to Appendix A
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].
10.3 -- 1997
Employee
Stock
Purchase Plan
[Incorporated
by reference
to Appendix C
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].
10.4 -- Waste
Management,
Inc.
Retirement
Savings
Restoration
Plan
[Incorporated
by reference

to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2002]. 10.5 -
- Revolving
Credit
Agreement
dated June
29, 2001 by
and among the
Company,
Waste
Management
Holdings,
Inc. the
banks
signatory
thereto,
Fleet
National
Bank, as
administrative
agent, Bank
of America,
N.A. and J.P.
Morgan and
Banc of
America
Securities
LLC, as joint
lead
arrangers and
joint book
managers.
[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2001] 10.6 --
Revolving
Credit
Agreement
dated the
27th day of
June, 2002,
by and among
Waste
Management,
Inc., Waste
Management
Holdings,
Inc., each of
the financial
institutions
party
thereto, and
Fleet
National Bank
as
administrative
agent, J.P.
Morgan
Securities,
Inc. and Banc
of America
Securities
LLC as joint
lead
arrangers and
joint book
managers, JP
Morgan Chase
Bank and Bank
of America,
N.A., as co-
syndication

agents, and
Deutsche Bank
AG, New York
Branch and
Citibank,
N.A. as co-
documentation
agent

[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
June 30,
2002]. 10.7 -
- 1998 Waste
Management,
Inc.

Directors'
Deferred
Compensation
Plan

[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
March 31,
1999]. 10.8 -
- 1999 Waste
Management,
Inc.

Directors
Deferred
Compensation
Plan

[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
March 31,
1999].

EXHIBIT
NUMBER*
DESCRIPTION -

----- 10.9 -
- Employment
Agreement
between the
Company and
A. Maurice
Myers, dated
November 8,
1999
[Incorporated
by reference
to Exhibit
10.35 to Form
10-K for the
year ended
December 31,
1999]. 10.10
-- Employment
Agreement
between the
Company and
Lawrence
O'Donnell
III, dated
January 21,
2000
[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2000]. 10.11
-- Employment
Agreement
between the
Company and
William L.
Trubeck,
dated
February 16,
2000
[Incorporated
by reference
to Exhibit
10.37 to Form
10-K for the
year ended
December 31,
1999]. 10.12
-- Employment
Agreement
between the
Company and
Thomas L.
Smith, dated
November 18,
1999
[Incorporated
by reference
to Exhibit
10.3 to Form
10-Q for the
quarter ended
June 30,
2000]. 10.13
-- Employment
Agreement
between the
Company and
Robert A.
Damico, dated
December 17,

1998

[Incorporated
by reference
to Exhibit
10.39 to Form
10-K for the
year ended
December 31,
1999]. 10.14
-- Employment
Agreement
between the
Company and
Charles A.
Wilcox, dated
February 3,
1998

[Incorporated
by reference
to Exhibit
10.40 to Form
10-K for the
year ended
December 31,
1999]. 10.15
-- Employment
Agreement
between the
Company and
David R.
Hopkins,
dated March
30, 2000

[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
March 31,
2000]. 10.16
-- Employment
Agreement
between the
Company and
Ronald H.
Jones, dated
as of August
27, 1997 and
December 7,
1997

[Incorporated
by reference
to Exhibits
10.22 and
10.25 to Form
10-K for the
year ended
December 31,
1997]. 10.17
-- Employment
Agreement
between the
Company and
David
Steiner,
dated as of
May 6, 2002

[Incorporated
by reference
to Exhibits
10.1 to Form
10-Q for the
quarter ended
March 31,
2002]. 10.18
-- Employment
Agreement
between the
Company and
Robert E.

Dees, Jr.,
dated as of
May 10, 2000
[Incorporated
by reference
to Exhibit
10.4 to the
Form 10-Q for
the quarter
ended March
31, 2000].

10.19 --
Employment
Agreement
between the
Company and
James E.

Trevathan
dated as of
June 1, 2000.
[Incorporated
by reference
to Exhibit
10.19 to Form
10-K for the
year ended
December 31,
2000]. 10.20

-- Employment
Agreement
between the
Company and
Charles E.

Williams
dated as of
June 1, 2000.
[Incorporated
by reference
to Exhibit
10.20 to Form
10-K for the
year ended
December 31,
2000]. 10.21

-- Employment
Agreement
between the
Company and
Domenic Pio

dated as of
April 1, 2001
[Incorporated
by reference
to Exhibit
10.4 to form
10-Q for the
quarter ended
June 30,
2001]. 10.22

-- Employment
Agreement
between the
Company and
Richard T.

Felago dated
as of May 14,
2001

[Incorporated
by reference
to Exhibit
10.5 to Form
10-Q for the
quarter ended
June 30,
2001]. 10.23

-- Employment
Agreement
between the
Company and
Robert G.

Simpson dated

as of October
15, 1998

[Incorporated
by reference
to Exhibit
10.44 to Form
10-K for the
year ended
December 31,
1999]. 10.24

-- Employment
Agreement
between the
Company and
Barry H.
Caldwell
dated as of
September 23,
2002. 10.25 -

- 2000 Broad-
Based
Employee Plan
[Incorporated
by reference
to Exhibit
10.49 to Form
10-K for the
year ended
December 31,
1999]. 10.26

-- 2000 Stock
Incentive
Plan

[Incorporated
by reference
to Appendix B
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].

10.27 -- 2001
Performance
Based
Compensation
Plan

[Incorporated
by reference
to Exhibit
10.3 to Form
10-Q for the
quarter ended
June 30,
2001]. 12.1 -

- Computation
of Ratio of
Earnings to
Fixed
Charges. 21.1

--
Subsidiaries
of the
Registrant.
23.1 --

Consent of
Independent
Auditors 23.2

--
Information
regarding
consent of
Arthur
Andersen LLP.

- - - - -

* In the case of incorporation by reference to documents filed under the Securities Exchange Act of 1934, the Company's file number under that Act is 1-12154.

(a) Reports on Form 8-K:

None.

CERTIFICATIONS

I, A. Maurice Myers, certify that:

1. I have reviewed this annual report on Form 10-K of Waste Management, Inc.;

2. Based on my knowledge, this annual 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 annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ A. MAURICE MYERS

A. Maurice Myers
President and Chief Executive
Officer

Date: February 24, 2003

I, William L. Trubeck, certify that:

1. I have reviewed this annual report on Form 10-K of Waste Management, Inc.;

2. Based on my knowledge, this annual 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 annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures 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 annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ WILLIAM L. TRUBECK

William L. Trubeck
Executive Vice President and
Chief Administrative Officer
(Principal Financial Officer)

Date: February 24, 2003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ A. MAURICE MYERS

A. Maurice Myers
President, Chief Executive Officer
and
Chairman of the Board

Date: February 24, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

SIGNATURE
TITLE DATE --

---- /s/ A.
MAURICE MYERS
President,
Chief
Executive
February 24,
2003 - -----

Officer, A.
Maurice Myers
Chairman of
the Board,
and Director
(Principal
Executive
Officer) /s/
WILLIAM L.
TRUBECK
Executive
Vice
President and
February 24,
2003 - -----

----- Chief
Administrative
Officer
William L.
Trubeck
(Principal
Financial
Officer) /s/
ROBERT G.
SIMPSON Vice
President and
February 24,
2003 - -----

----- Chief
Accounting
Officer
Robert G.
Simpson
(Principal
Accounting
Officer) /s/
H. JESSE
ARNELLE
Director
February 24,

2003 - -----

----- H.
Jesse Arnelle
/s/ PASTORA
SAN JUAN
CAFFERTY
Director
February 24,
2003 - -----

Pastora San
Juan Cafferty
/s/ FRANK M.
CLARK
Director
February 24,
2003 - -----

----- Frank
M. Clark /s/
ROBERT S.
MILLER
Director
February 24,
2003 - -----

----- Robert
S. Miller /s/
JOHN C. POPE
Director
February 24,
2003 - -----

----- John
C. Pope /s/
STEVEN G.
ROTHMEIER
Director
February 24,
2003 - -----

----- Steven
G. Rothmeier
/s/ CARL W.
VOGT Director
February 24,
2003 - -----

----- Carl
W. Vogt /s/
RALPH V.
WHITWORTH
Director
February 24,
2003 - -----

----- Ralph
V. Whitworth

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Waste Management, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Waste Management, Inc. (the "Company") as of December 31, 2002, and for the year then ended, and have issued our report thereon dated February 14, 2003 (included elsewhere in this Form 10-K). Our audit also included the financial statement schedule as of December 31, 2002, and for the year then ended, listed in Item 14(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. The financial statement schedule listed in Item 14(a) of this Form 10-K as of December 31, 2001 and 2000, and for each of the years then ended, was audited by other auditors who have ceased operations and whose report dated February 25, 2002 expressed an unqualified opinion.

In our opinion, the 2002 financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Houston, Texas
February 14, 2003

INFORMATION REGARDING CONSENT OF ARTHUR ANDERSEN LLP.

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

In June of 2002, Arthur Andersen LLP ("Andersen") was convicted of obstructing justice, which is a felony offense. The SEC prohibits firms convicted of a felony from auditing public companies. Andersen is thus unable to consent to the incorporation of Andersen's opinion with respect to Waste Management, Inc.'s Schedule II as of December 31, 2001 and for the two years in the period then ended. Under these circumstances, Rule 437a under the Securities Act permits Waste Management, Inc. to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in Waste Management Inc. securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act.

WASTE MANAGEMENT, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

ACCOUNTS BALANCE CHARGED WRITTEN OFF/ BALANCE BEGINNING (CREDITED) USE OF END OF OF YEAR TO INCOME RESERVE OTHER(A) YEAR -----	-----	2000	--	Reserves for doubtful
accounts(B).....	\$295	\$14	\$(170)	\$ 12 \$151 2001 -- Reserves for doubtful
accounts(B).....	\$151	\$58	\$(112)	\$ (3) \$ 94 2002 -- Reserves for doubtful
accounts(B).....	\$ 94	\$67	\$(83)	\$ -- \$ 78 2000 -- Merger and restructuring
accruals(C).....	\$109	\$--	\$(27)	\$(53) \$ 29 2001 -- Merger and restructuring
accruals(C).....	\$ 29	\$(8)	\$(14)	\$ -- \$ 7 2002 -- Merger and restructuring
accruals(C).....	\$ 7	\$38	\$(35)	\$ -- \$ 10 2000 -- Reserve for major maintenance
expenditures(D).....	\$ 53	\$ 9	\$(14)	\$ -- \$ 48 2001 -- Reserve for major maintenance
expenditures(D).....	\$ 48	\$10	\$(6)	\$ -- \$ 52 2002 -- Reserve for major maintenance
expenditures(D).....	\$ 52	\$10	\$(14)	\$ -- \$ 48

- (A) Reserves for doubtful accounts related to purchase of business combinations, reserves associated with dispositions of businesses, reserves reclassified to operations held for sale, and reclasses among reserve accounts.
- (B) Includes reserves for doubtful accounts receivable and long-term notes receivable.
- (C) Accruals are included in accrued liabilities and other liabilities. These accruals represent transaction or deal costs, employee severance, separation, and transitional costs.
- (D) For major maintenance expenditures at the Company's waste-to-energy and independent power facilities.

EXHIBIT INDEX

EXHIBIT NUMBER*	DESCRIPTION -
----- ----- 3.1 --	Second Amended and Restated Certificate of Incorporation [Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2002].
3.2 --	Bylaws as amended [Incorporated by reference to Exhibit 3.2 to Form 10-Q for the quarter ended June 30, 2002].
4.1 --	Specimen Stock Certificate [Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 1998].
4.2 --	Indenture for Subordinated Debt Securities dated February 1, 1997, among the Registrant and Texas Commerce Bank National Association, as trustee [Incorporated by reference to Exhibit 4.1 to Form 8-K dated February 7, 1997].
4.3 --	Indenture for Senior Debt Securities dated September 10, 1997, among the Registrant and Texas Commerce Bank National Association, as trustee [Incorporated by reference

to Exhibit
4.1 to Form
8-K dated
September 10,
1997]. 10.1 -
- 1993 Stock
Incentive
Plan

[Incorporated
by reference
to Exhibit
10.2 to Form
10-K for the
year ended
December 31,
1998]. 10.2 -
- 1996 Stock
Option Plan
for Non-
Employee
Directors

[Incorporated
by reference
to Appendix A
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].

10.3 -- 1997
Employee
Stock

Purchase Plan
[Incorporated
by reference
to Appendix C
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].

10.4 -- Waste
Management,
Inc.

Retirement
Savings
Restoration
Plan

[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2002]. 10.5 -

- Revolving
Credit
Agreement
dated June
29, 2001 by
and among the
Company,
Waste
Management
Holdings,
Inc. the
banks
signatory
thereto,
Fleet
National
Bank, as
administrative
agent, Bank
of America,
N.A. and J.P.
Morgan and
Banc of

America
Securities
LLC, as joint
lead
arrangers and
joint book
managers.
[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2001] 10.6 --
Revolving
Credit
Agreement
dated the
27th day of
June, 2002,
by and among
Waste
Management,
Inc., Waste
Management
Holdings,
Inc., each of
the financial
institutions
party
thereto, and
Fleet
National Bank
as
administrative
agent, J.P.
Morgan
Securities,
Inc. and Banc
of America
Securities
LLC as joint
lead
arrangers and
joint book
managers, JP
Morgan Chase
Bank and Bank
of America,
N.A., as co-
syndication
agents, and
Deutsche Bank
AG, New York
Branch and
Citibank,
N.A. as co-
documentation
agent
[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
June 30,
2002]. 10.7 -
- 1998 Waste
Management,
Inc.
Directors'
Deferred
Compensation
Plan
[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended

March 31,
1999]. 10.8 -
- 1999 Waste
Management,
Inc.

Directors
Deferred
Compensation
Plan

[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
March 31,
1999]. 10.9 -

- Employment
Agreement
between the
Company and
A. Maurice
Myers, dated
November 8,
1999

[Incorporated
by reference
to Exhibit
10.35 to Form
10-K for the
year ended
December 31,
1999]. 10.10

-- Employment
Agreement
between the
Company and
Lawrence
O'Donnell
III, dated
January 21,
2000

[Incorporated
by reference
to Exhibit
10.1 to Form
10-Q for the
quarter ended
June 30,
2000]. 10.11

-- Employment
Agreement
between the
Company and
William L.
Trubeck,
dated
February 16,
2000

[Incorporated
by reference
to Exhibit
10.37 to Form
10-K for the
year ended
December 31,
1999]. 10.12

-- Employment
Agreement
between the
Company and
Thomas L.
Smith, dated
November 18,
1999

[Incorporated
by reference
to Exhibit
10.3 to Form
10-Q for the
quarter ended

June 30,
2000]. 10.13
-- Employment
Agreement
between the
Company and
Robert A.
Damico, dated
December 17,
1998

[Incorporated
by reference
to Exhibit
10.39 to Form
10-K for the
year ended
December 31,
1999]. 10.14

-- Employment
Agreement
between the
Company and
Charles A.
Wilcox, dated
February 3,
1998

[Incorporated
by reference
to Exhibit
10.40 to Form
10-K for the
year ended
December 31,
1999]. 10.15

-- Employment
Agreement
between the
Company and
David R.
Hopkins,
dated March
30, 2000

[Incorporated
by reference
to Exhibit
10.2 to Form
10-Q for the
quarter ended
March 31,
2000]. 10.16

-- Employment
Agreement
between the
Company and
Ronald H.
Jones, dated
as of August
27, 1997 and
December 7,
1997

[Incorporated
by reference
to Exhibits
10.22 and
10.25 to Form
10-K for the
year ended
December 31,
1997]. 10.17

-- Employment
Agreement
between the
Company and
David
Steiner,
dated as of
May 6, 2002

[Incorporated
by reference
to Exhibits
10.1 to Form

10-Q for the quarter ended March 31, 2002]. 10.18 -- Employment Agreement between the Company and Robert E. Dees, Jr., dated as of May 10, 2000 [Incorporated by reference to Exhibit 10.4 to the Form 10-Q for the quarter ended March 31, 2000]. 10.19 -- Employment Agreement between the Company and James E. Trevathan dated as of June 1, 2000. [Incorporated by reference to Exhibit 10.19 to Form 10-K for the year ended December 31, 2000].

EXHIBIT
NUMBER*
DESCRIPTION -

----- 10.20 -
- Employment
Agreement
between the
Company and
Charles E.
Williams
dated as of
June 1, 2000.
[Incorporated
by reference
to Exhibit
10.20 to Form
10-K for the
year ended
December 31,
2000]. 10.21
-- Employment
Agreement
between the
Company and
Domenic Pio
dated as of
April 1, 2001
[Incorporated
by reference
to Exhibit
10.4 to form
10-Q for the
quarter ended
June 30,
2001]. 10.22
-- Employment
Agreement
between the
Company and
Richard T.
Felago dated
as of May 14,
2001
[Incorporated
by reference
to Exhibit
10.5 to Form
10-Q for the
quarter ended
June 30,
2001]. 10.23
-- Employment
Agreement
between the
Company and
Robert G.
Simpson dated
as of October
15, 1998
[Incorporated
by reference
to Exhibit
10.44 to Form
10-K for the
year ended
December 31,
1999]. 10.24
-- Employment
Agreement
between the
Company and
Barry H.
Caldwell
dated as of
September 23,
2002. 10.25 -
- 2000 Broad-

Based
Employee Plan
[Incorporated
by reference
to Exhibit
10.49 to Form
10-K for the
year ended
December 31,
1999]. 10.26
-- 2000 Stock
Incentive
Plan
[Incorporated
by reference
to Appendix B
to the Proxy
Statement for
the 2000
Annual
Meeting of
Stockholders].
10.27 -- 2001
Performance
Based
Compensation
Plan
[Incorporated
by reference
to Exhibit
10.3 to Form
10-Q for the
quarter ended
June 30,
2001]. 12.1 -
- Computation
of Ratio of
Earnings to
Fixed
Charges. 21.1
--
Subsidiaries
of the
Registrant.
23.1 --
Consent of
Independent
Auditors 23.2
--
Information
regarding
consent of
Arthur
Andersen LLP.

- - - - -

* In the case of incorporation by reference to documents filed under the Securities Exchange Act of 1934, the Company's file number under that Act is 1-12154.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into on this ____ day of September, 2002 by and between Waste Management, Inc. (the "Company"), and Barry Caldwell (the "Executive").

1. EMPLOYMENT AND TERMINATION OF PREVIOUS EMPLOYMENT AGREEMENT.

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

2. TERM OF EMPLOYMENT.

The period of Executive's employment under this Agreement shall commence on September 23, 2002 ("Employment Date"), and shall continue for a period of two (2) years thereafter, and shall automatically be renewed for successive one (1) year periods thereafter, unless Executive's employment is terminated in accordance with Section 5 below. The period during which Executive is employed hereunder shall be referred to as the "Employment Period."

3. DUTIES AND RESPONSIBILITIES.

(a) Executive shall serve as the Senior Vice-President, Government Affairs and Communications. In such capacity, Executive shall perform such duties and have the power, authority, and functions commensurate with such position in similarly-sized public companies, and have and possess such other authority and functions consistent with such position as may be assigned to Executive from time to time by the Chief Executive Officer, President, Chief Administrative Officer, or the Board of Directors.

(b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and its affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement), be involved in charitable and professional activities, and, with the prior written consent of the Board of Directors, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder.

4. COMPENSATION AND BENEFITS.

(a) BASE SALARY. During the Employment Period, the Company shall pay Executive a base salary at the annual rate of Three Hundred Seventy-Five Thousand and 00/100ths Dollars (\$375,000.00) per year, or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced.

(b) ANNUAL BONUS. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company. The Executive's target

annual bonus will be Seventy-Five percent (75%) of his Base Salary in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 150% (two times Target Bonus), and will be determined based upon (i) the achievement of certain corporate performance goals, as may be established and approved by from time to time by the Compensation Committee of the Board of Directors, and (ii) the achievement of personal performance goals as may be established by Executive's immediate supervisor. The annual bonus for calendar year 2002 will be paid in 2003, if earned, at the same time as similarly situated employees receive or would otherwise receive their bonuses, and will be prorated based upon the number of days Executive was employed by the Company during calendar year 2002, provided Executive remains employed through the end of the 2002 calendar year.

(c) STOCK OPTIONS. Subject to the approval of the Compensation Committee of the Board of Directors, Executive shall receive two separate grants of stock options on the date of the first meeting of the Compensation Committee following the Employment Date, each grant being for Fifty Thousand (50,000) shares of common stock of Waste Management, Inc. With respect to the first stock option grant of 50,000 shares, one-fourth (1/4) of such options will vest on each of the next four (4) anniversaries of the Grant Date (the date of approval by the Compensation Committee). The exercise price shall be the fair market value on the Grant Date. Similarly, with respect to the second stock option grant of 50,000 shares, one-fourth (1/4) of such options will vest on each of the next four (4) anniversaries of the date of Executive's actual relocation to Houston, Texas. The exercise price shall be the fair market value on the Grant Date.

The award, vesting, and exercise of all options shall be subject to and governed by the provisions of the applicable Waste Management, Inc. Stock Incentive Plan. Executive shall be eligible to be considered for additional stock option grants under the Company's annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors.

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

During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year.

(e) EXPENSE REIMBURSEMENT. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties hereunder in accordance with the Company's customary practices applicable to its executive officers.

Additionally, upon Executive's relocation to Houston, Texas, the Company will reimburse Executive the sum of Nine Thousand Eight Hundred Fifty Dollars (\$9,850.00), such sum representing one-half of the actual cost of Executive's daughter's private school tuition which Executive will forgo when he relocates to Houston, Texas.

(f) SIGN-ON BONUS. The Company will pay Executive an initial sign-on bonus in the amount of Sixty-Two Thousand Five Hundred and 00/100ths Dollars (\$62,500.00) within seven (7) business days of the Employment Date. The Company will also pay Executive a second sign-on bonus in the amount of Sixty-Two Thousand Five Hundred and 00/100ths Dollars (\$62,500.00) within seven (7) business days of his relocation to Houston, Texas. It is expressly agreed to and understood that should Executive's employment be terminated for "Good Cause" as set forth in Paragraph 5(c) or should Executive resign without "Good Reason" as discussed in Paragraph 5(d), prior to or during the first twelve months of employment, then Executive shall repay on demand by the Company both sign-on bonuses, net withholding taxes. It is further agreed that any obligation of the Company to provide future payments to Executive beyond his employment with the Company shall be first credited and applied to the repayment of these sign-on bonuses.

(g) OTHER PERQUISITES. Executive shall be entitled to all perquisites provided to Senior Vice Presidents of the Company as approved by the Compensation Committee of the Board of Directors, and as they may exist from time to time, including the following:

1. Automobile allowance at the annual rate of Twelve Thousand Dollars (\$12,000.00), payable in accordance with the Company's standard payroll practice for its executive officers and prorated in any year that Executive does not work a full calendar year;

2. Financial planning services at actual cost, and not to exceed Fifteen Thousand Dollars (\$15,000.00) annually;

3. Social Organization Initiation Fees and Dues with a benefit of a one time initiation fee at actual cost but not to exceed ten percent (10%) of Executive's Base Salary, and dues at actual cost but not to exceed \$500 per month; and

4. An annual physical examination on a program designated by the Company.

5. TERMINATION OF EMPLOYMENT.

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

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

(b) TOTAL DISABILITY. The Company may terminate Executive's employment hereunder upon Executive becoming "Totally Disabled." For purposes of this Agreement, Executive shall be considered "Totally Disabled" if Executive has been physically or mentally incapacitated so as to render Executive incapable of performing the essential functions of

Executive's position with or without reasonable accommodation. Executive's receipt of disability benefits under the Company's long-term disability plan or receipt of Social Security disability benefits shall be deemed conclusive evidence of Total Disability for purpose of this Agreement; provided, however, that in the absence of Executive's receipt of such long-term disability benefits or Social Security benefits, the Company's Board of Directors may, in its reasonable discretion (but based upon appropriate medical evidence), determine that Executive is Totally Disabled.

(c) TERMINATION BY THE COMPANY FOR CAUSE. The Company may terminate Executive's employment hereunder for "Cause" at any time after providing a Notice of Termination for Cause to Executive.

(i) For purposes of this Agreement, the term "Cause" means any of the following: (A) willful or deliberate and continual refusal to perform Executive's employment duties reasonably requested by the Company after receipt of written notice to Executive of such failure to perform, specifying such failure (other than as a result of Executive's sickness, illness or injury) and Executive fails to cure such nonperformance within ten (10) days of receipt of said written notice; (B) breach of any statutory or common law duty of loyalty to the Company; (C) has been convicted of, or pleaded nolo contendere to, any felony; (D) willfully or intentionally caused material injury to the Company, its property, or its assets; (E) disclosed to unauthorized person(s) proprietary or confidential information of the Company; (F) any material violation or a repeated and willful violation of Company policies or procedures; or (G) breach of any of the covenants set forth in Section 8 hereof.

(ii) For purposes of this Agreement, the phrase "Notice of Termination for Cause" shall mean a written notice that shall indicate the specific termination provision in Section 5(c)(i) relied upon, and shall set forth in reasonable detail the facts and circumstances which provide the basis for termination for Cause. Further, a Notification of Termination for Cause shall be required to include a copy of a resolution duly adopted by at least two-thirds (2/3) of the entire membership of the Board of Directors at a meeting of the Board which was called for the purpose of considering such employment termination, and at which Executive and his representative had the right to attend and address the Board, finding that, in the good faith belief of the Board, Executive engaged in conduct set forth in Section 5(c)(i) herein and specifying the particulars thereof in reasonable detail. The date of termination for Cause shall be the date indicated in the Notice of Termination for Cause. Any purported termination for Cause which is held by an arbitrator not to have been based on the grounds set forth in this Agreement or not to have followed the procedures set forth in this Agreement shall be deemed a termination by the Company without Cause.

(d) VOLUNTARY TERMINATION BY EXECUTIVE. Executive may terminate his employment hereunder with or without Good Reason at any time upon written notice to the Company.

(i) A termination for "Good Reason" means a resignation of employment by Executive by written notice ("Notice of Termination for Good Reason") given to the Company's Chief Executive Officer within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are substantially corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (A) the Company substantially changes Executive's core duties or removes Executive's responsibility for those core duties, so as to effectively cause Executive to no longer be performing the duties of his position (except in each case in connection with the termination of Executive's employment for Cause or Total Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence); provided that if the Company becomes a fifty percent or more subsidiary of any other entity, Executive shall be deemed to have a substantial change in the core duties of his position unless he is also Senior Vice-President of the ultimate parent entity; (B) removal or the non-reelection of the Executive from the officer position with the Company specified herein, or removal of the Executive from any of his then officer positions; (C) any material breach by the Company of any provision of this Agreement, including without limitation Section 10 hereof; or (D) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder; or (E) if after his relocation to Houston, Texas, the reassignment of Executive to a geographic location more than fifty (50) miles from his then business office location.

(ii) A "Notice of Termination for Good Reason" shall mean a notice that shall indicate the specific termination provision relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The failure by Executive to set forth in the Notice of Termination for Good Reason any facts or circumstances which contribute to the showing of Good Reason shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(A) or (B), the date may be five (5) business days after the giving of such notice.

(e) TERMINATION BY THE COMPANY WITHOUT CAUSE. The Company may terminate Executive's employment hereunder without Cause at any time upon written notice to Executive.

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

6. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

In the event that Executive's employment hereunder is terminated, Executive shall be entitled to the following compensation and benefits upon such termination:

(a) TERMINATION BY REASON OF DEATH. In the event that Executive's employment is terminated by reason of Executive's death, the Company shall pay the following amounts to Executive's beneficiary or estate:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, any earned but unpaid bonuses for any prior calendar year, and, to the extent not otherwise paid, a pro-rata bonus or incentive compensation payment for the current calendar year to the extent payments are awarded to senior executives of the Company and paid at the same time as senior executives are paid.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's death) which would have been payable to Executive if Executive had continued in employment for two additional years. Said payments will be paid to Executive's estate or beneficiary at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment.
- (iv) As of the date of termination by reason of Executive's death, stock options previously awarded to Executive as of the date of death shall be fully vested, and Executive's estate or beneficiary shall have up to one (1) year from the date of disability to exercise all such previously-awarded options, provided that in no event will any option be exercisable beyond its term. No stock options contemplated by this Agreement, but not yet awarded to Executive as of the time of his death, shall be granted.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, and any earned but unpaid bonuses for any prior calendar year. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment to the extent such awards are made to senior executives of the Company for the year in which Executive is terminated, and to the extent not otherwise paid to the Executive.

- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's Total Disability) which would have been payable to Executive if Executive had continued in active employment for two years following termination of employment, less any payments under any long-term disability plan or arrangement paid for by the Company. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment until the end of such period.
- (iv) As of the date of termination by reason of Executive's Total Disability, stock options previously awarded to Executive as of the date of termination shall be fully vested, and Executive or his legal guardian shall have up to one (1) year from the date of death to exercise all such previously-awarded options, provided that in no event will any option be exercisable beyond its term. No stock options contemplated by this Agreement, but not yet awarded to Executive as of the time of his employment termination, shall be granted.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) All options, whether vested or not vested prior to the date of such termination of employment, shall be automatically cancelled on the date of employment termination. However, it is expressly understood and agreed that Executive would have no obligation to repay or otherwise reimburse the Company for funds received as a result of Executive's having exercised any previously-vested stock options prior to his employment termination.

(d) VOLUNTARY TERMINATION BY EXECUTIVE. In the event that Executive voluntarily terminates employment other than for Good Reason, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) Any stock options that have not vested prior to the date of such termination of employment shall be automatically cancelled as of that date, and Executive shall have ninety (90) days following the date of termination of employment to exercise any previously vested options; provided that in no event will any option be exercisable beyond its term. No stock options contemplated by this Agreement, but not yet awarded to Executive as of the time of his employment termination, shall be granted.

(e) TERMINATION BY THE COMPANY WITHOUT CAUSE; TERMINATION BY EXECUTIVE FOR GOOD REASON. In the event that Executive's employment is terminated by the Company for reasons other than death, Total Disability or Cause, or Executive terminates his employment for Good Reason, the Company shall pay the following amounts to Executive:

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, and any earned but unpaid bonuses for any prior calendar year.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(d) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to two times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case as then in effect), of which one-half shall be paid in a lump sum within ten (10) days after such termination and one-half shall be paid during the two (2) year period beginning on the date of Executive's termination and shall be paid at the same time and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
- (iv) The Company at its expense will continue for Executive and Executive's spouse and dependents, all health benefit plans, programs or arrangements, whether group or individual, disability, and other benefit plans, in which Executive was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) two years after the date of termination; (B) Executive's death (provided that benefits provided to Executive's

spouse and dependents shall not terminate upon Executive's death); or (C) with respect to any particular plan, program or arrangement, the date Executive becomes eligible to participate in a comparable benefit provided by a subsequent employer. In the event that Executive's continued participation in any such Company plan, program, or arrangement is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under such plan, program, or arrangement, for such period on a basis which provides Executive with no additional after tax cost.

- (v) Executive shall be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives of the Company, pro-rated for the fiscal year in which the Executive is terminated.
- (vi) Executive shall continue to vest in all stock option awards or restricted stock awards over the two (2) year period commencing on the date of such termination. Executive shall have two (2) years and six (6) months after the date of termination to exercise all options to the extent then vested, provided that in no event may any option be exercisable beyond its term.

(f) NO OTHER BENEFITS OR COMPENSATION. Except as may be provided under this Agreement, under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's termination or resignation of employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

(g) NO MITIGATION; NO SET-OFF. In the event of any termination of employment hereunder, Executive shall be under no obligation to seek other employment, and there shall be no offset against any amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except upon obtaining by the Company of a final non-appealable judgment against Executive.

7. RESIGNATION BY EXECUTIVE FOR GOOD REASON AND COMPENSATION PAYABLE FOLLOWING CHANGE IN CONTROL.

(a) RESIGNATION FOR GOOD REASON FOLLOWING CHANGE IN CONTROL. In the event a "Change in Control" occurs and Executive terminates his employment for Good Reason thereafter, or the Company terminates Executive's employment other than for Cause, or such termination for Good Reason or without Cause occurs in contemplation of such Change in Control (any termination within six (6) months prior to such Change in Control being presumed to be in contemplation unless rebutted by clear and demonstrable evidence to the contrary), the Company shall pay the following amounts to Executive:

- (i) The payments and benefits provided for in Section 6(e), except that (A) the amount and period with respect to which severance is calculated pursuant to Section 6(e)(iii) will be three (3) years and the amount shall be paid in a lump-sum and (B) the benefit continuation period in Section 6(e)(iv) shall be for three (3) years.
- (ii) In lieu of Section 6(e)(v), Executive will be 100% vested in all benefits, awards, and grants (including stock option grants and stock awards, all of such stock options exercisable for three (3) years following Termination, provided that in no event will any option be exercisable beyond its term) accrued but unpaid as of the date of termination under any non-qualified pension plan, supplemental and/or incentive compensation or bonus plans, in which Executive was a participant as of the date of termination. Executive shall also receive a bonus or incentive compensation payment (the "bonus payment"), payable at 100% of the maximum bonus available to Executive, pro-rated as of the effective date of the termination. The bonus payment shall be payable within five (5) days after the effective date of Executive's termination. Except as may be provided under this Section 7 or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's termination of employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such resignation or termination.

(b) CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

- (i) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (iv) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this Section 7(b), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.
- (ii) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G[b][3] of the Code) shall be treated as subject to the Excise Tax,

unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G[b][2]) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

- (iii) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

- (iv) The Gross-up Payment or portion thereof provided for in subsection (iii) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (iii) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).
- (v) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.
- (vi) The Company shall be responsible for all charges of the Accountant.
- (vii) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Section 7(b).

(c) CHANGE IN CONTROL. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events:

- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding voting securities;
- (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Employment Date, constitute the Board and any new director (other than a director whose initial

assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of the at least two-thirds (2/3rds) of the directors then still in office who either were directors on the Employment Date or whose appointment, election or nomination for election was previously so approved or recommended;

- (iii) there is a consummated merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving or parent entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person, directly or indirectly, acquired twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates); or
- (iv) the stock holders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

For purposes of this Section 7(c), the following terms shall have the following meanings:

(i) "Affiliate" shall mean an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");

(ii) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act;

(iii) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned, directly or indirectly, by the stockholders of

the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.

8. COVENANTS

(a) COMPANY PROPERTY. All written materials, records, data, and other documents prepared or possessed by Executive during Executive's employment with the Company are the Company's property. All information, ideas, concepts, improvements, discoveries, and inventions that are conceived, made, developed, or acquired by Executive individually or in conjunction with others during Executive's employment (whether during business hours and whether on the Company's premises or otherwise) which relate to the Company's business, products, or services are the Company's sole and exclusive property. All memoranda, notes, records, files, correspondence, drawings, manuals, models, specifications, computer programs, maps, and all other documents, data, or materials of any type embodying such information, ideas, concepts, improvements, discoveries, and inventions are the Company's property. At the termination of Executive's employment with the Company for any reason, Executive shall return all of the Company's documents, data, or other Company property to the Company.

(b) CONFIDENTIAL INFORMATION; NON-DISCLOSURE. Executive acknowledges that the business of the Company is highly competitive and that the Company has agreed to provide and immediately will provide Executive with access to "Confidential Information" relating to the business of the Company and its affiliates.

For purposes of this Agreement, "Confidential Information" means and includes the Company's confidential and/or proprietary information and/or trade secrets that have been developed or used and/or will be developed and that cannot be obtained readily by third parties from outside sources. Confidential Information includes, by way of example and without limitation, the following information regarding customers, employees, contractors, and the industry not generally known to the public; strategies, methods, books, records, and documents; technical information concerning products, equipment, services, and processes; procurement procedures and pricing techniques; the names of and other information concerning customers, investors, and business affiliates (such as contact name, service provided, pricing for that customer, type and amount of services used, credit and financial data, and/or other information relating to the Company's relationship with that customer); pricing strategies and price curves; positions, plans, and strategies for expansion or acquisitions; budgets; customer lists; research; weather data; financial and sales data; trading methodologies and terms; evaluations, opinions, and interpretations of information and data; marketing and merchandising techniques; prospective customers' names and marks; grids and maps; electronic databases; models; specifications; computer programs; internal business records; contracts benefiting or obligating the Company; bids or proposals submitted to any third party; technologies and methods; training methods and training processes; organizational structure; personnel information, including salaries of personnel; payment amounts or rates paid to consultants or other service providers; and other such confidential or proprietary information. Information need not qualify as a trade secret to be protected as Confidential Information under this Agreement, and the authorized and controlled disclosure of Confidential Information to authorized parties by Company in the pursuit of its business will not cause the information to lose its protected status under this Agreement. Executive acknowledges that this Confidential Information constitutes a valuable,

special, and unique asset used by the Company or its affiliates in their businesses to obtain a competitive advantage over their competitors. Executive further acknowledges that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company and its affiliates in maintaining their competitive position.

Executive also will have access to, or knowledge of, Confidential Information of third parties, such as actual and potential customers, suppliers, partners, joint venturers, investors, financing sources, and the like, of the Company and its affiliates.

The Company also agrees to provide Executive with one or more of the following: access to Confidential Information; specialized training regarding the Company's methodologies and business strategies, and/or support in the development of goodwill such as introductions, information and reimbursement of customer development expenses consistent with Company policy. The foregoing is not contingent on continued employment, but is contingent upon Executive's use of the Confidential Information access, specialized training, and goodwill support provided by Company for the exclusive benefit of the Company and upon Executive's full compliance with the restrictions on Executive's conduct provided for in this Agreement.

In addition to the requirements set forth in Section 5(c)(i), Executive agrees that Executive will not after Executive's employment with the Company, make any unauthorized disclosure of any then Confidential Information or specialized training of the Company or its affiliates, or make any use thereof, except in the carrying out of his employment responsibilities hereunder. Executive also agrees to preserve and protect the confidentiality of third party Confidential Information to the same extent, and on the same basis, as the Company's Confidential Information.

(c) UNFAIR COMPETITION RESTRICTIONS. Upon Executive's Employment Date, the Company agrees to and shall provide Executive with immediate access to Confidential Information. Ancillary to the rights provided to Executive following employment termination, the Company's provision of Confidential Information, specialized training, and/or goodwill support to Executive, and Executive's agreements, regarding the use of same, and in order to protect the value of the above-referenced stock options, training, goodwill support and/or the Confidential Information described above, the Company and Executive agree to the following provisions against unfair competition. Executive agrees that for a period of two (2) years following the termination of employment for any reason ("Restricted Term"), Executive will not, directly or indirectly, for Executive or for others, anywhere in the United States (including all parishes in Louisiana) (the "Restricted Area") do the following, unless expressly authorized to do so in writing by the Chief Executive Officer of the Company:

Engage in, or assist any person, entity, or business engaged in, the selling or providing of products or services that would displace the products or services that (i) the Company is currently in the business of providing and was in the business of providing, or was planning to be in the business of providing, at the time Executive was employed with the Company, and (ii) that Executive had involvement in or received Confidential Information about in the course of employment; the foregoing is expressly understood to

include, without limitation, the business of the collection, transfer, recycling and resource recovery, or disposal of solid waste, including the operation of waste-to-energy facilities.

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

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

(d) NON-SOLICITATION OF CUSTOMERS. For a period of two (2) years following the termination of employment for any reason, Executive will not call on, service, or solicit competing business from customers of the Company or its affiliates whom Executive, within the previous twelve (12) months, (i) had or made contact with, or (ii) had access to information and files about, or induce or encourage any such customer or other source of ongoing business to stop doing business with Company.

(e) NON-SOLICITATION OF EMPLOYEES. During Executive's employment, and for a period of two (2) years following the termination of employment for any reason, Executive will not, either directly or indirectly, call on, solicit, encourage, or induce any other employee or officer of the Company or its affiliates whom Executive had contact with, knowledge of, or association within the course of employment with the Company to terminate his or her employment, and will not assist any other person or entity in such a solicitation.

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

9. ENFORCEMENT OF COVENANTS.

(a) TERMINATION OF EMPLOYMENT AND FORFEITURE OF COMPENSATION. Executive agrees that any breach by Executive of any of the covenants set forth in Section 8 hereof during Executive's employment by the Company, shall be grounds for immediate dismissal of Executive for Cause pursuant to Section 5(c)(i), which shall be in addition to and not exclusive of any and all other rights and remedies the Company may have against Executive.

(b) RIGHT TO INJUNCTION. Executive acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages will be inadequate. Therefore, in the event of breach or anticipatory breach of the covenants set forth in this section by Executive, Executive and the Company agree that the Company shall be entitled to seek the following particular forms of relief, in addition to remedies otherwise available to it at law or equity: (A) injunctions, both preliminary and permanent, enjoining or restraining such breach or anticipatory breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (B) recovery of all reasonable sums as determined by a court of competent jurisdiction expended and costs, including reasonable attorney's fees, incurred by the Company to enforce the covenants set forth in this section.

(c) SEPARABILITY OF COVENANTS. The covenants contained in Section 8 hereof constitute a series of separate but ancillary covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding. Executive and the Company further agree that the covenants in Section 8 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. INDEMNIFICATION.

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

Employment Period in the same amount and to the same extent as the Company covers its other officers and directors.

11. DISPUTES AND PAYMENT OF ATTORNEY'S FEES.

If at any time during the term of this Agreement or afterwards there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Executive (and Executive shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Executive) Executive's costs and reasonable attorney's fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Executive in connection with any such dispute or any litigation, provided that Executive shall repay any such amounts paid or advanced if Executive is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. The provisions of this Section 11, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and of Executive's employment hereunder.

12. WITHHOLDING OF TAXES.

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

13. SOURCE OF PAYMENTS.

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

14. ASSIGNMENT.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's designated beneficiary or, if none, his estate) and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger,

consolidation, sale, exchange or transfer in a writing delivered to Executive in a form reasonably acceptable to Executive (the provisions of this sentence also being applicable to any successive such transaction).

15. ENTIRE AGREEMENT; AMENDMENT.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company. It may not be amended except by a written agreement signed by both parties.

16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions.

17. REQUIREMENT OF TIMELY PAYMENTS.

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

18. NOTICES.

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

To the Company: Waste Management , Inc.
1001 Fannin, Suite 4000
Houston, Texas 77002
Attention: Corporate Secretary

To Executive: At the address for Executive set forth below.

19. MISCELLANEOUS.

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

(b) SEPARABILITY. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

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

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

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

IN WITNESS WHEREOF, this Agreement is EXECUTED and EFFECTIVE as of the day set forth above.

BARRY CALDWELL
("Executive")

/s/ Barry Caldwell

Barry Caldwell

(Address)

WASTE MANAGEMENT, INC.
(The "Company")

By: /s/ A. Maurice Myers

A. Maurice Myers
President and Chief Executive Officer

Waste Management, Inc.

Computation of Ratio of Earnings to Fixed Charges
(In Millions, Except Ratios)
(Unaudited)

Years Ended
December 31,

---- 2002
2001 2000 --

Income
(loss) from
continuing
operations
before
income
taxes,
undistributed
earnings
from
affiliated
companies,
and minority
interest \$
1,254 \$ 792
\$ 344 -----

-- Fixed
charges
deducted
from income:
Interest
expense 462
541 748
Implicit
interest in
rents 66 65
74 -----

528 606 822

Earnings
available
for fixed
charges \$
1,782 \$
1,398 \$
1,166
=====

Interest
expense \$
462 \$ 541 \$
748
Capitalized
interest 20
16 22
Implicit
interest in
rents 66 65
74 -----

Total fixed
charges \$
548 \$ 622 \$
844

=====
=====
=====
Ratio of
earnings to
fixed
charges 3.3x
2.2x 1.4x
=====
=====
=====

NAME -----	STATE OF INCORPORATION -----
1019726 Alberta Ltd.	Alberta
1329409 Ontario Inc.	Ontario
3368084 Canada Inc.	Canada
635952 Ontario Inc.	Ontario
A-1 Compaction Inc.	New York
Advanced Environmental Technical Services, L.L.C.	Delaware
Akron Regional Landfill, Inc.	Delaware
Alabama Waste Disposal Solutions, L.L.C.	Alabama
Alliance Sanitary Landfill, Inc.	Pennsylvania
American Landfill, Inc.	Ohio
American RRT Fiber Supply, L.P.	Pennsylvania
Anderson Landfill, Inc.	Delaware
Anderson-Cottonwood Disposal Services, Inc.	California
Antelope Valley Recycling and Disposal Facility, Inc.	California
Apollo Waste Industries, L.L.C.	Georgia
Apollo Waste Services of Georgia, L.L.C.	Delaware
Arden Landfill, Inc.	Pennsylvania
Atlantic Waste Disposal, Inc.	Delaware
Automated Salvage Transport Co., L.L.C.	Delaware
Automated Salvage Transport, L.L.C.	Delaware
Auxiwaste Services SA	France
Azusa Land Reclamation, Inc.	California
B & L Disposal Co.	Nevada
B&B Landfill, Inc.	Delaware
Back Pressure Turbine, LLP	Maryland
Baltimore Environmental Recovery Group, Inc.	Maryland
Bayside of Marion, Inc.	Florida
Bestan Inc.	Quebec
Big Dipper Enterprises, Inc.	North Dakota
Bio-Energy Partners	Illinois
Bluegrass Containment, L.L.C.	Delaware
Boone Waste Industries, Inc.	Florida
Brazoria County Recycling Center, Inc.	Texas
Burnsville Sanitary Landfill, Inc.	Minnesota
C.D.M. Sanitation, Inc.	Minnesota
C.I.D. Landfill, Inc.	New York
CA Newco, L.L.C.	Delaware
Cal Sierra Disposal	California
California Asbestos Monofill, Inc.	California
Canadian Waste Services Holdings Inc.	Ontario
Canadian Waste Services Inc.	Ontario
CAP/CRA, L.L.C.	Illinois
Capital Sanitation Company	Nevada
Capitol Disposal, Inc.	Alaska
Caramella-Ballardini, Ltd.	Nevada
Carolina Grading, Inc.	South Carolina
Carver Transfer & Processing, LLC	Minnesota

Cedar Hammock Refuse Disposal Corporation	Florida
Cedar Ridge Landfill, Inc.	Delaware
Central Disposal Systems, Inc.	Iowa
Central Missouri Landfill, Inc.	Missouri
Central Valley Waste Services, Inc.	California
Chadwick Road Landfill, Inc.	Georgia
Chambers Clearview Environmental Landfill, Inc.	Mississippi
Chambers Development Company, Inc.	Delaware
Chambers Development of Ohio, Inc.	Ohio
Chambers of Georgia, Inc.	Delaware
Chambers of Hong Kong, Inc.	Hong Kong
Chambers of Mississippi, Inc.	Mississippi
Charlotte Landscaping and Sanitation Services	Florida
Chastang Landfill, Inc.	Delaware
Chemical Waste Management of Indiana, L.L.C.	Delaware
Chemical Waste Management of the Northwest, Inc.	Washington
Chemical Waste Management, Inc.	Delaware
Chesser Island Road Landfill, Inc.	Georgia
Chiquita Canyon Landfill, Inc.	California
City Disposal Systems, Inc.	Delaware
City Environmental Services, Inc. of Waters	Michigan
City Environmental, Inc.	Delaware
City Management Corporation	Michigan
Clayton-Ward Company, Inc.	California
Cleburne Landfill Company Corp.	Alabama
Cloverdale Disposal, Inc.	California
Coast Waste Management, Inc.	California
Cocopah Landfill, Inc.	California
Colorado Landfill, Inc.	Delaware
Connecticut Valley Sanitary Waste Disposal, Inc.	Massachusetts
Conservation Services, Inc.	Colorado
Container Recycling Alliance, L.P.	Delaware
Continental Waste Industries Arizona, Inc.	New Jersey
Copper Mountain Landfill, Inc.	Arizona
Coshocton Landfill, Inc.	Ohio
Cougar Landfill, Inc.	Texas
Countryside Landfill, Inc.	Illinois
Cuyahoga Landfill, Inc.	Delaware
CWM Chemical Services, L.L.C.	Delaware
Dafter Sanitary Landfill, Inc.	Michigan
Dauphin Meadows, Inc.	Pennsylvania
Deep Valley Landfill, Inc.	Delaware
Deer Track Park Landfill, Inc.	Delaware
Del Almo Landfill, L.L.C.	Delaware
Deland Landfill, Inc.	Delaware
Delaware Recyclable Products, Inc.	Delaware
Dickinson Landfill, Inc.	Delaware
Disposal Service, Incorporated	West Virginia

Donno Company, Inc.	New York
E.C. Waste, Inc.	Puerto Rico
Earthmovers Landfill, L.L.C.	Delaware
East Liverpool Landfill, Inc.	Ohio
Eastern One Land Corporation	Delaware
El Coqui de San Juan	Puerto Rico
El Coqui Landfill Company, Inc.	Puerto Rico
El Coqui Waste Disposal, Inc.	Delaware
ELDA Landfill, Inc.	Delaware
Elk River Landfill, Inc.	Minnesota
Envirofil of Illinois, Inc.	Illinois
Equipment Credit Corporation	Delaware
Evergreen Landfill, Inc.	Delaware
Evergreen Recycling and Disposal Facility, Inc.	Delaware
Farmer's Landfill, Inc.	Missouri
Feather River Disposal, Inc.	California
Fernley Disposal, Inc.	Nevada
Front Range Landfill, Inc.	Delaware
G.C. Environmental, Inc.	Texas
G.I. Industries	Utah
GA Landfills, Inc.	Delaware
Gallia Landfill, Inc.	Delaware
Garnet of Maryland, Inc.	Maryland
Georgia Waste Systems, Inc.	Georgia
Gestion Des Rebut D.M.P.	Quebec
Glen's Sanitary Landfill, Inc.	Michigan
Grand Central Sanitary Landfill, Inc.	Pennsylvania
Grupo WMX, S.A. De C.V.	Mexico
Guadalupe Mines Mutual Water Company	California
Guadalupe Rubbish Disposal Co., Inc.	California
Guam Resource Recovery Partners, L.P.	Delaware
Ham Lake Haulers, Inc.	Minnesota
Harris Sanitation, Inc.	Florida
Harwood Landfill, Inc.	Maryland
Hedco Landfill, Ltd. (UK)	England
Hillsboro Landfill Inc.	Oregon
Holyoke Sanitary Landfill, Inc.	Massachusetts
IN Landfills, L.L.C.	Delaware
Independent Sanitation Company	Nevada
Intersan Inc.	Canada
Jahner Sanitation, Inc.	North Dakota
Jay County Landfill, L.L.C.	Delaware
JFS (UK) Limited	England
John Smith Landfill, Inc.	California
Jones Sanitation, L.L.C.	Delaware
Junker Sanitation Services, Inc.	Minnesota
K and W Landfill Inc.	Michigan
Kahle Landfill, Inc.	Missouri

Keene Road Landfill, Inc.	Florida
Kelly Run Sanitation, Inc.	Pennsylvania
Key Disposal Ltd.	British Columbia
King George Landfill, Inc.	Virginia
KN Industrial Services, Inc.	Colorado
L&M Landfill, Inc.	Delaware
Land Reclamation Company, Inc.	Delaware
Landfill of Pine Ridge, Inc.	Delaware
Landfill Services of Charleston, Inc.	West Virginia
Landfill Systems, Inc.	New Mexico
Laurel Highlands Landfill, Inc.	Pennsylvania
Laurel Ridge Landfill, L.L.C.	Delaware
LCS Services, Inc.	West Virginia
LFG Production, L.P.	Delaware
LG-Garnet of Maryland JV	District of Columbia
Liberty Landfill, L.L.C.	Delaware
Liberty Lane West Owners' Association	New Hampshire
Liquid Waste Management, Inc.	California
Longmont Landfill, L.L.C.	Delaware
M.S.T.S. AG	Switzerland
M.S.T.S. Limited Partnership	Illinois
M.S.T.S., Inc.	Delaware
Mahoning Landfill, Inc.	Ohio
Marangi Bros., Inc.	New Jersey
Mass Gravel Inc.	Massachusetts
Mc Ginnes Industrial Maintenance Corporation	Texas
McDaniel Landfill, Inc.	North Dakota
McGill Landfill, Inc.	Michigan
Meadowfill Landfill, Inc.	Delaware
Michigan Environs, Inc.	Michigan
Minneapolis Refuse, Incorporated	Minnesota
Modesto Garbage Co., Inc.	California
Moor Refuse, Inc.	California
Mountain Indemnity Insurance Company	Vermont
Mountain Indemnity International Limited	Ireland
Mountainview Landfill, Inc. (MD)	Maryland
Mountainview Landfill, Inc. (UT)	Utah
Nassau Landfill, L.L.C.	Delaware
National Guaranty Insurance Company of Vermont	Vermont
Naue Serrot Beteiligungs GmbH & Co. K.G.	Germany
Naue Serrot Europe GmbH JV	Germany
Neal Road Landfill Corporation	California
New England CR L.L.C.	Delaware
New Milford Landfill, L.L.C.	Delaware
New Orleans Landfill, L.L.C.	Delaware
NH/VT Energy Recovery Corporation	New Hampshire
Nichols Sanitation, Inc.	Florida
North Hennepin Recycling and Transfer Corporation	Minnesota

Northwestern Landfill, Inc.	Delaware
Nu-Way Live Oak Reclamation, Inc.	Delaware
Oakridge Landfill, Inc.	South Carolina
Oakwood Landfill, Inc.	South Carolina
Okeechobee Landfill, Inc.	Florida
Orange County Landfill, Inc.	Florida
P & R Environmental Industries, L.L.C.	North Carolina
Pacific Waste Management, L.L.C.	Delaware
Palo Alto Sanitation Company	California
Paper Recycling International, L.P.	Delaware
Pappy, Inc.	Maryland
Peltz H.C., LLC	Wisconsin
Peltz Trucking, LLC	Wisconsin
Pennwood Crossing, Inc.	Pennsylvania
Pen-Rob, Inc.	Arizona
Penuelas Valley Landfill, Inc.	Puerto Rico
People's Landfill, Inc.	Delaware
Peterson Demolition, Inc.	Minnesota
Phoenix Resources, Inc.	Pennsylvania
Pine Grove Gas Development LLC	Delaware
Pine Grove Landfill, Inc. (DE)	Delaware
Pine Grove Landfill, Inc. (PA)	Pennsylvania
Pine Ridge Landfill, Inc.	Delaware
Pine Tree Acres, Inc.	Michigan
Plantation Oaks Landfill, Inc.	Delaware
Prairie Bluff Landfill, Inc.	Delaware
Profinance Holdings Corporation	Ohio
Pulaski Grading, L.L.C.	Delaware
Pullman Power Products Corporation	Delaware
Quail Hollow Landfill, Inc.	Delaware
Questquill Ltd.	United Kingdom
R & B Landfill, Inc.	Georgia
R.S.W. Recycling, Inc.	Nevada
Rail Cycle North Ltd.	Ontario
Rail-Cycle L.P.	California
RCI Hudson, Inc.	Massachusetts
RECO Ventures, L.P.	Delaware
Recycle & Recover, Inc.	Georgia
Recycle America Alliance, L.L.C.	Delaware
Recycle America Co., L.L.C.	Delaware
Recycle America Holdings, Inc.	Delaware
RE-CY-CO, Inc.	Minnesota
Redwood Landfill, Inc.	Delaware
Refuse Services, Inc.	Florida
Refuse, Inc.	Nevada
REI Holdings Inc.	Delaware
Reliable Landfill, L.L.C.	Delaware
Remote Landfill Services, Inc.	Tennessee

Reno Disposal Co.	Nevada
Resco Holdings Inc.	Delaware
Resource Control Composting, Inc.	Massachusetts
Resource Control, Inc.	Massachusetts
Reuter Recycling of Florida, Inc.	Florida
Richland County Landfill, Inc.	South Carolina
Ridge Generating Station Limited Partnership	Florida
RIS Risk Management Inc.	Delaware
Riverbend Landfill Co.	Oregon
Rolling Meadows Landfill, Inc.	Delaware
RRT Design & Construction Corp.	Delaware
RRT Empire of Monroe County, Inc.	New York
RTS Landfill, Inc.	Delaware
Rust Associates, Ltd.	Canada
Rust Construcciones Mexico	Mexico
Rust Controldua, S.A. De C.V.	Mexico
Rust Engineering & Construction Inc.	Delaware
Rust Engineering do Brasil Construcoes, Ltda	Brazil
Rust International Inc.	Delaware
Rust Sweden Holdings AB	Sweden
Rust VAR Projekt AB	Sweden
S & S Grading, Inc.	West Virginia
S&J Landfill Limited Partnership	Texas
S. V. Farming Corp.	New Jersey
Sanifill de Mexico (US), Inc.	Delaware
Sanifill de Mexico, S.A. de C.V.	Mexico
Sanifill of San Juan, Inc.	Puerto Rico
Sanifill Power Corporation	Delaware
SC Holdings, Inc.	Pennsylvania
Serubam Servicos Urbanos E Ambientais Ltda	Brazil
SES Bridgeport L.L.C.	Delaware
SES Connecticut Inc.	Delaware
SF, Inc.	Delaware
Shade Landfill, Inc.	Delaware
Shore Disposal, Inc.	Virginia
Shoreline Disposal Service, Inc.	California
Sierra Estrella Landfill, Inc.	Arizona
Signal Capital Sherman Station Inc.	Delaware
Signal Resco, Inc.	Delaware
Smyrna Landfill, Inc.	Georgia
Southern Alleghenies Landfill, Inc.	Pennsylvania
Southern One Land Corporation	Delaware
Southern Plains Landfill, Inc.	Oklahoma
Southern Services of TN, L.L.C.	Tennessee
Southern Waste Services, L.L.C.	Delaware
Spruce Ridge, Inc.	Minnesota
Stony Hollow Landfill, Inc.	Delaware
Storey County Sanitation, Inc.	Nevada

Suburban Landfill, Inc.	Delaware
Texarkana Landfill, L.L.C.	Delaware
The Peltz Group of Ohio LLC	Ohio
The Peltz Group, LLC	Wisconsin
The Rust Engineering Company (Canada), Ltd.	Canada
The Waste Management Charitable Foundation	Delaware
The Woodlands of Van Buren, Inc.	Delaware
TNT Sands, Inc.	South Carolina
Town and Country Refuse, Inc.	Florida
Trail Ridge Landfill, Inc.	Delaware
Transamerican Waste Central Landfill, Inc.	Delaware
Transamerican Waste Industries Southeast, Inc.	Delaware
Trans-Canadian Fibers, Inc.	Ontario
Transwaste, Inc.	Louisiana
Trash Hunters, Inc.	Mississippi
Tri-Cities Resource Management, LLC	California
Tri-County Sanitary Landfill, L.L.C.	Delaware
TX Newco, L.L.C.	Delaware
United Waste Systems Leasing, Inc.	Michigan
United Waste Systems of Gardner, Inc.	Massachusetts
United Waste Transfer, Inc.	Minnesota
USA South Hills Landfill, Inc.	Pennsylvania
USA Valley Facility, Inc.	Delaware
USA Waste Geneva Landfill, Inc.	Delaware
USA Waste Industrial Services, Inc.	Delaware
USA Waste Landfill Operations and Transfer, Inc.	Texas
USA Waste of California, Inc.	Delaware
USA Waste of Maryland, Inc.	Maryland
USA Waste of Minnesota, Inc.	Minnesota
USA Waste of New York City, Inc	Delaware
USA Waste of Pennsylvania, LLC	Delaware
USA Waste of Texas Landfills, Inc.	Delaware
USA Waste of Virginia Landfills, Inc.	Delaware
USA Waste San Antonio Landfill, Inc.	Delaware
USA Waste Services North Carolina Landfills, Inc.	Delaware
USA Waste Services of Nevada, Inc.	Nevada
USA Waste Services of NYC, Inc.	Delaware
USA Waste-Management Resources, LLC	New York
USA-Crinc, L.L.C.	Delaware
UWS Barre, Inc.	Massachusetts
VAI VA Projekt AB	Sweden
Valley Garbage and Rubbish Company, Inc.	California
Vern's Refuse Service, Inc.	North Dakota
VHG, Inc.	Minnesota
Vickery Environmental, Inc.	Ohio
Voyageur Disposal Processing, Inc.	Minnesota
W/W Risk Management, Inc.	Delaware
Warner Company	Delaware

Warner Hill Development Company	Delaware
Wasco Landfill, Inc.	Delaware
Waste Away Group, Inc.	Alabama
Waste Management Arizona Landfills, Inc.	Delaware
Waste Management Austria mbH	Austria
Waste Management Canadian Finance LP	Quebec
Waste Management Collection and Recycling, Inc.	California
Waste Management Disposal Services of Colorado, Inc.	Colorado
Waste Management Disposal Services of Maine, Inc.	Maine
Waste Management Disposal Services of Maryland, Inc.	Maryland
Waste Management Disposal Services of Massachusetts, Inc.	Massachusetts
Waste Management Disposal Services of Oregon, Inc.	Delaware
Waste Management Disposal Services of Pennsylvania, Inc.	Pennsylvania
Waste Management Disposal Services of Virginia, Inc.	Delaware
Waste Management Environmental Services B.V.	Netherlands
Waste Management Financing Corporation	Delaware
Waste Management Holdings, Inc.	Delaware
Waste Management Inc. of Florida	Florida
Waste Management International B.V.	Netherlands
Waste Management International plc	United Kingdom
Waste Management International Services (UK) Limited	England
Waste Management International, Inc.	Delaware
Waste Management International, Ltd.	Bermuda
Waste Management Municipal Services of California, Inc.	California
Waste Management National Services, Inc.	Delaware
Waste Management New England Environmental Transport, Inc.	Delaware
Waste Management of Alameda County, Inc.	California
Waste Management of Alaska, Inc.	Delaware
Waste Management of Arizona, Inc.	California
Waste Management of Arkansas, Inc.	Delaware
Waste Management of California, Inc.	California
Waste Management of Carolinas, Inc.	North Carolina
Waste Management of Central Florida, Inc.	Florida
Waste Management of Colorado, Inc.	Colorado
Waste Management of Connecticut, Inc.	Delaware
Waste Management of Delaware, Inc.	Delaware
Waste Management of Five Oaks Recycling and Disposal Facility, Inc.	Delaware
Waste Management of Georgia, Inc.	Georgia
Waste Management of Hawaii, Inc.	Delaware
Waste Management of Idaho, Inc.	Idaho
Waste Management of Illinois, Inc.	Delaware
Waste Management of Indiana Holdings One, Inc.	Delaware
Waste Management of Indiana Holdings Two, Inc.	Delaware
Waste Management of Indiana, L.L.C.	Delaware
Waste Management of Iowa, Inc.	Iowa
Waste Management of Kansas, Inc.	Kansas
Waste Management of Kentucky Holdings, Inc.	Delaware
Waste Management of Kentucky L.L.C.	Delaware

Waste Management of Leon County, Inc.	Florida
Waste Management of Louisiana Holdings One, Inc.	Delaware
Waste Management of Louisiana, L.L.C.	Delaware
Waste Management of Maine, Inc.	Maine
Waste Management of Maryland, Inc.	Maryland
Waste Management of Massachusetts, Inc.	Massachusetts
Waste Management of Metro Atlanta, Inc.	Georgia
Waste Management of Michigan, Inc.	Michigan
Waste Management of Minnesota, Inc.	Minnesota
Waste Management of Mississippi, Inc.	Mississippi
Waste Management of Missouri, Inc.	Delaware
Waste Management of Montana, Inc.	Delaware
Waste Management of Nebraska, Inc.	Delaware
Waste Management of Nevada, Inc.	Nevada
Waste Management of New Hampshire, Inc.	Connecticut
Waste Management of New Jersey, Inc.	Delaware
Waste Management of New Mexico, Inc.	New Mexico
Waste Management of New York City, L.P.	Delaware
Waste Management of New York, L.L.C.	Delaware
Waste Management of North Dakota, Inc.	Delaware
Waste Management of Ohio, Inc.	Ohio
Waste Management of Oklahoma, Inc.	Oklahoma
Waste Management of Oregon, Inc.	Oregon
Waste Management of Pennsylvania, Inc.	Pennsylvania
Waste Management of Plainfield, L.L.C.	Delaware
Waste Management of Rhode Island, Inc.	Delaware
Waste Management of South Carolina, Inc.	South Carolina
Waste Management of South Dakota, Inc.	South Dakota
Waste Management of Texas Holdings, Inc.	Delaware
Waste Management of Texas, Inc.	Texas
Waste Management of Tunica Landfill, Inc.	Mississippi
Waste Management of Utah, Inc.	Utah
Waste Management of Virginia, Inc.	Virginia
Waste Management of Washington, Inc.	Delaware
Waste Management of West Virginia, Inc.	Delaware
Waste Management of Wisconsin, Inc.	Wisconsin
Waste Management of Wyoming, Inc.	Delaware
Waste Management Paper Stock Company, Inc.	Delaware
Waste Management Partners, Inc.	Delaware
Waste Management Plastic Products, Inc.	Delaware
Waste Management Quebec Holdings, Inc.	Delaware
Waste Management Recycling and Disposal Services of California, Inc.	California
Waste Management Recycling of New Jersey, L.L.C.	Delaware
Waste Management Service Center, Inc.	Delaware
Waste Management Services SA	Switzerland
Waste Management South America B.V.	Netherlands
Waste Management Technology Center, Inc.	Delaware
Waste Management Thailand B.V.	Netherlands

Waste Management Transfer of New Jersey, Inc.	New Jersey
Waste Management, Inc. of Tennessee	Tennessee
Waste Resource Technologies	California
Waste Resources of Tennessee, Inc.	Tennessee
Waste Services of Kentucky, L.L.C.	Delaware
Waste to Energy Holdings, Inc.	Delaware
Waste to Energy I, LLC	Delaware
Waste to Energy II, LLC	Delaware
Wastech Inc.	Nevada
Webster Parish Landfill, L.L.C.	Delaware
WESI Baltimore Inc.	Delaware
WESI Capital Inc.	Delaware
WESI Peekskill Inc.	Delaware
WESI Westchester Inc.	Delaware
Westchester Resco Associates, L.P.	Delaware
Western One Land Corporation	Delaware
Western Waste Industries	California
Western Waste of Texas, L.L.C.	Delaware
Wheelabrator Alloy Castings Ltd.	Indonesia
Wheelabrator Baltimore L.L.C.	Delaware
Wheelabrator Baltimore, L.P.	Maryland
Wheelabrator Bridgeport, L.P.	Delaware
Wheelabrator Carteret Inc.	Delaware
Wheelabrator Cedar Creek Inc.	Delaware
Wheelabrator Claremont Company, L.P.	Delaware
Wheelabrator Concord Company, L.P.	Delaware
Wheelabrator Concord Inc.	Delaware
Wheelabrator Connecticut Inc.	Delaware
Wheelabrator Culm Services Inc.	Delaware
Wheelabrator Environmental Systems Inc.	Delaware
Wheelabrator Falls Inc.	Delaware
Wheelabrator Frackville Energy Company Inc.	Delaware
Wheelabrator Frackville Properties Inc.	Delaware
Wheelabrator Fuel Services Inc.	Delaware
Wheelabrator Gloucester Company, L.P.	New Jersey
Wheelabrator Gloucester Inc.	Delaware
Wheelabrator Guam Inc.	Delaware
Wheelabrator Hudson Energy Company Inc.	Delaware
Wheelabrator Hudson Falls L.L.C.	Delaware
Wheelabrator Land Resources Inc.	Delaware
Wheelabrator Lassen Inc.	Delaware
Wheelabrator Lisbon Inc.	Delaware
Wheelabrator Martell Inc.	Delaware
Wheelabrator McKay Bay Inc.	Florida
Wheelabrator Millbury Inc.	Delaware
Wheelabrator New Hampshire Inc.	Delaware
Wheelabrator New Jersey Inc.	Delaware

Wheelabrator NHC Inc.	Delaware
Wheelabrator North Andover Inc.	Delaware
Wheelabrator North Broward Inc.	Delaware
Wheelabrator North Shore Inc.	Delaware
Wheelabrator Norwalk Energy Company Inc.	Delaware
Wheelabrator Penacook Inc.	Delaware
Wheelabrator Pinellas Inc.	Delaware
Wheelabrator Polk Inc.	Delaware
Wheelabrator Putnam Inc.	Delaware
Wheelabrator Ridge Energy Inc.	Delaware
Wheelabrator Saugus Inc.	Delaware
Wheelabrator Saugus, J.V.	Massachusetts
Wheelabrator Shasta Energy Company Inc.	Delaware
Wheelabrator Sherman Energy Company, G.P.	Maine
Wheelabrator Sherman Station One Inc.	Delaware
Wheelabrator Sherman Station Two Inc.	Delaware
Wheelabrator Shrewsbury Inc.	Delaware
Wheelabrator South Broward Inc.	Delaware
Wheelabrator Spokane Inc.	Delaware
Wheelabrator Technologies Inc.	Delaware
Wheelabrator Technologies International Inc.	Delaware
Wheelabrator Westchester, L.P.	Delaware
White Lake Landfill, Inc.	Michigan
Williams Landfill, L.L.C.	Delaware
WM Arizona Operations, L.L.C.	Delaware
WM Asia BV	Netherlands
WM Aviation Holdings, L.L.C.	Delaware
WM Energy Solutions, Inc.	Delaware
WM International Holdings, Inc.	Delaware
WM Landfills of Georgia, Inc.	Delaware
WM Landfills of Ohio, Inc.	Delaware
WM Landfills of Tennessee, Inc.	Delaware
WM Partnership Holdings, Inc.	Delaware
WM Resources, Inc.	Pennsylvania
WM Services SA	Argentina
WM Tontitown Landfill, LLC	Arkansas
WM Trading, L.L.C.	Delaware
WM Transportation Services, Inc.	Delaware
WM UK Limited	England
WMI Medical Services of Indiana, Inc.	Indiana
WMI Mexico Holdings, Inc.	Delaware
WMNA Container Recycling, L.L.C.	Delaware
WMNA Rail-Cycle Sub, Inc.	Delaware
WMST Illinois, L.L.C.	Illinois
WMST Nevada, L.L.C.	Nevada
WTI Air Pollution Control Inc.	Delaware
WTI International Holdings Inc.	Delaware
WTI Rust Holdings Inc.	Delaware
WTI Xuzhou, LLC	Cayman Islands
Yell County Landfill, Inc.	Arkansas

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the previously filed Registration Statements on Form S-8 (Registration Nos. 333-45062, 333-45064 and 333-45066), Form S-3 (Registration Nos. 333-80063 and 333-97697) and Form S-4 (Registration Nos. 333-32805, 333-97699 and 333-101811), of our reports dated February 14, 2003, with respect to the consolidated financial statements and schedule of Waste Management, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ Ernst & Young LLP

Houston, Texas
February 21, 2003

INFORMATION REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

In June of 2002, Arthur Andersen LLP ("Andersen") was convicted of obstructing justice, which is a felony offense. The SEC prohibits firms convicted of a felony from auditing public companies. Andersen is thus unable to consent to the incorporation by reference of the Company's previously filed Registration Statements on Form S-8 (Registration Nos. 333-45062, 333-45064 and 333-45066), previously filed Registration Statements on Form S-3 (Registration Nos. 333-80063 and 333-97697), previously filed Registration Statements on Form S-4 (Registration Nos. 333-32805, 333-97699 and 333-101811) and Andersen's audit report with respect to Waste Management, Inc.'s consolidated financial statements as of December 31, 2001 and for the two years in the period then ended. Under these circumstances, Rule 437a under the Securities Act permits Waste Management, Inc. to file this Annual Report on Form 10-K, which is incorporated by reference into the Registration Statements, without a written consent from Andersen. As a result, with respect to transactions in Waste Management, Inc. securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act.