

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-12154

WASTE MANAGEMENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

73-1309529
(I.R.S. Employer
Identification No.)

1001 FANNIN
SUITE 4000
HOUSTON, TEXAS 77002
(Address of principal executive offices)

(713) 512-6200
(Registrant's telephone number, including area code)

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

The number of shares of Common Stock, \$.01 par value, of the registrant
outstanding at August 9, 1999, was 619,245,656 (excluding 7,892,612 shares held
in the Waste Management, Inc. Employee Stock Benefit Trust and treasury shares
of 73,709).

PART I.

ITEM 1. FINANCIAL STATEMENTS.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PAR VALUE AMOUNTS)
(UNAUDITED)

ASSETS

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
Current assets:		
Cash and cash equivalents.....	\$ 80,999	\$ 86,873
Receivables, net.....	2,655,398	2,385,911
Parts and supplies.....	99,804	128,254
Deferred income taxes.....	164,135	237,616
Costs and estimated earnings in excess of billings on uncompleted contracts.....	150,440	127,975
Prepaid expenses and other.....	236,250	168,163
Current assets held for sale.....	119,232	746,605
	-----	-----
Total current assets.....	3,506,258	3,881,397
Property and equipment, net.....	11,854,311	11,637,739
Excess of cost over net assets of acquired businesses, net.....	6,577,021	6,069,098
Other intangible assets, net.....	174,207	181,226
Other assets.....	879,876	945,738
	-----	-----
Total assets.....	\$22,991,673	\$22,715,198
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 1,068,276	\$ 1,040,601
Accrued liabilities.....	1,999,207	2,287,543
Deferred revenues.....	390,984	381,780
Current maturities of long-term debt.....	369,592	583,742
	-----	-----
Total current liabilities.....	3,828,059	4,293,666
Long-term debt, less current maturities.....	10,932,384	11,114,201
Deferred income taxes.....	560,891	470,107
Environmental liabilities.....	973,479	971,507
Other liabilities.....	1,079,980	1,381,145
	-----	-----
Total liabilities.....	17,374,793	18,230,626
Minority interest in subsidiaries.....	140,948	112,076
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued.....	--	--
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 625,147,493 and 608,307,531 shares issued, respectively.....	6,251	6,083
Additional paid-in capital.....	4,691,162	4,091,525
Retained earnings.....	1,731,456	1,066,506
Accumulated other comprehensive income.....	(524,820)	(420,804)
Treasury stock at cost, 73,709 and 63,950 shares, respectively.....	(3,890)	(2,821)
Employee stock benefit trust at market, 7,892,612 shares.....	(424,227)	(367,993)
	-----	-----
Total stockholders' equity.....	5,475,932	4,372,496
	-----	-----
Total liabilities and stockholders' equity.....	\$22,991,673	\$22,715,198
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Operating revenues.....	\$3,334,575	\$3,250,731	\$6,405,210	\$6,220,164
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	1,868,093	1,912,083	3,544,876	3,713,344
General and administrative.....	284,704	379,663	544,642	729,267
Depreciation and amortization.....	384,333	387,363	740,665	743,665
Merger costs.....	62,211	7,361	79,695	14,963
Asset impairments and unusual items.....	19,750	--	19,750	--
Income from continuing operations held for sale, net of minority interest.....	--	(4,986)	--	(2,570)
	2,619,091	2,681,484	4,929,628	5,198,669
Income from operations.....	715,484	569,247	1,475,582	1,021,495
Other income (expense):				
Interest expense.....	(184,911)	(173,554)	(361,068)	(329,085)
Interest income.....	5,663	8,322	8,481	14,504
Minority interest.....	(6,547)	(12,864)	(13,009)	(38,166)
Other income, net.....	16,215	40,058	30,578	110,432
	(169,580)	(138,038)	(335,018)	(242,315)
Income before income taxes and extraordinary item.....	545,904	431,209	1,140,564	779,180
Provision for income taxes.....	227,642	184,439	475,614	350,994
Income before extraordinary item.....	318,262	246,770	664,950	428,186
Extraordinary loss on refinancing of debt, net of tax benefit of \$2,600.....	--	(3,900)	--	(3,900)
Net income.....	\$ 318,262	\$ 242,870	\$ 664,950	\$ 424,286
Basic earnings per common share:				
Income before extraordinary item.....	\$ 0.52	\$ 0.43	\$ 1.10	\$ 0.75
Extraordinary item.....	--	(0.01)	--	(0.01)
Net income.....	\$ 0.52	\$ 0.42	\$ 1.10	\$ 0.74
Diluted earnings per common share:				
Income before extraordinary item.....	\$ 0.50	\$ 0.42	\$ 1.05	\$ 0.73
Extraordinary item.....	--	(0.01)	--	(0.01)
Net income.....	\$ 0.50	\$ 0.41	\$ 1.05	\$ 0.72
Weighted average number of common shares outstanding.....	610,904	575,848	606,677	570,795
Weighted average number of common and dilutive potential common shares outstanding.....	646,716	613,948	644,719	607,934

The accompanying notes are an integral part of these condensed consolidated financial statements. The statement of operations for the six months ended June 30, 1999 includes certain reclassifications and adjustments relating to the three months ended March 31, 1999. See Note 1.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)
(UNAUDITED)

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----	ACCUMULATED OTHER COMPREHENSIVE INCOME -----	TREASURY STOCK -----	EMPLOYEE STOCK BENEFIT TRUST -----
Balance, December 31, 1998....	\$6,083	\$4,091,525	\$1,066,506	\$(420,804)	\$(2,821)	\$(367,993)
Common stock options and warrants exercised, including tax benefits...	68	240,197	--	--	--	--
Common stock issued for acquisitions.....	5	21,268	--	--	--	--
Foreign currency translation adjustment.....	--	--	--	(104,016)	--	--
Adjustment of employee stock benefit trust to market value.....	--	56,234	--	--	--	(56,234)
Common stock issued for conversion of subordinated debt.....	90	260,588	--	--	--	--
Other.....	5	21,350	--	--	(1,069)	--
Net income.....	--	--	664,950	--	--	--
	-----	-----	-----	-----	-----	-----
Balance, June 30, 1999.....	\$6,251	\$4,691,162	\$1,731,456	\$(524,820)	\$(3,890)	\$(424,227)
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements. The statement of stockholders' equity includes certain reclassifications and adjustments relating to the three months ended March 31, 1999. See Note 1.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
Cash flows from operating activities:		
Net income.....	\$ 664,950	\$ 424,286
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	740,665	743,665
Deferred income taxes.....	247,007	50,407
Minority interest in subsidiaries.....	9,757	37,789
Gain on sale of assets.....	(17,532)	(65,998)
Effect of merger costs, asset impairments and unusual items.....	--	4,689
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables, net.....	(261,592)	(85,416)
Prepaid expenses and other.....	(18,567)	(41,115)
Other assets.....	32,336	38,613
Accounts payable and accrued liabilities.....	(350,295)	(358,941)
Deferred revenues and other liabilities.....	(271,101)	35,635
Other, net.....	9,177	(44,761)
Net cash provided by operating activities.....	784,805	738,853
Cash flows from investing activities:		
Short-term investments.....	(6,273)	57,837
Acquisitions of businesses, net of cash acquired.....	(644,515)	(1,402,532)
Capital expenditures.....	(614,085)	(735,801)
Proceeds from sale of assets.....	502,681	455,262
Acquisitions of minority interests.....	--	(876,232)
Other, net.....	11,649	(11,160)
Net cash used in investing activities.....	(750,543)	(2,512,626)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt.....	1,814,726	3,469,463
Principal payments on long-term debt.....	(2,021,837)	(2,378,388)
Cash dividends.....	--	(83,236)
Net proceeds from issuance of common stock.....	--	202,997
Proceeds from sale of treasury stock.....	--	739,161
Proceeds from exercise of common stock options and warrants.....	165,110	59,605
Other, net.....	--	(15,667)
Net cash provided by (used in) financing activities.....	(42,001)	1,993,935
Effect of exchange rate changes on cash and cash equivalents.....	1,865	(21)
Increase (decrease) in cash and cash equivalents.....	(5,874)	220,141
Cash and cash equivalents at beginning of period.....	86,873	189,942
Cash and cash equivalents at end of period.....	\$ 80,999	\$ 410,083

The accompanying notes are an integral part of these condensed consolidated financial statements. The statement of cash flows for the six months ended June 30, 1999 includes certain reclassifications and adjustments relating to the three months ended March 31, 1999. See Note 1.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Net income.....	\$318,262	\$242,870	\$ 664,950	\$424,286
Other comprehensive income (loss):				
Foreign currency translation adjustment.....	(42,471)	(20,560)	(104,016)	(53,665)
Comprehensive income.....	\$275,791	\$222,310	\$ 560,934	\$370,621
	=====	=====	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements. The statement of comprehensive income for the six months ended June 30, 1999 includes certain reclassifications and adjustments relating to the three months ended March 31, 1999. See Note 1.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The condensed consolidated financial statements of Waste Management, Inc. and subsidiaries (the "Company") presented herein are unaudited. In the opinion of management, these financial statements include all adjustments (which, subject to the discussion below in Note 1 "Revisions," include only normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts for certain revenues and expenses during the reporting period. Future events could alter such estimates in the near term and actual results could differ materially from those estimates. See "Management's Discussion and Analysis" herein.

1. REVISIONS

The Company has revised certain items included in its previously reported financial statements for the three months ended March 31, 1999. Below is a comparison of the previously reported and revised Condensed Consolidated Statement of Operations for the three months ended March 31, 1999. Except as otherwise expressly stated in the Notes, all financial information in this Quarterly Report on Form 10-Q is presented inclusive of such changes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	PREVIOUSLY REPORTED	AS REVISED
	-----	-----
Operating revenues.....	\$3,070,635	\$3,070,635
	-----	-----
Costs and expenses:		
Operating (exclusive of depreciation and amortization shown below).....	1,641,323	1,676,783
General and administrative.....	258,194	259,938
Depreciation and amortization.....	350,329	356,332
Merger costs.....	33,126	17,484
	-----	-----
	2,282,972	2,310,537
	-----	-----
Income from operations.....	787,663	760,098
	-----	-----
Other income (expense):		
Interest expense.....	(176,157)	(176,157)
Interest income.....	2,818	2,818
Minority interest.....	(6,462)	(6,462)
Other income, net.....	16,963	14,363
	-----	-----
	(162,838)	(165,438)
	-----	-----
Income before income taxes.....	624,825	594,660
Provision for income taxes.....	260,551	247,972
	-----	-----
Net income.....	\$ 364,274	\$ 346,688
	=====	=====
Basic earnings per common share.....	\$ 0.60	\$ 0.57
Diluted earnings per common share.....	\$ 0.58	\$ 0.55

The components of the \$30.2 million of net adjustments to decrease previously reported income before income taxes are as follows: (i) a decrease of \$24.0 million to eliminate a retroactive application of changes in estimates of the Company's final closure and post-closure reserves related to certain

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Area of its North American solid waste operations; (ii) a decrease of \$8.3 million to eliminate a retroactive application of changes in estimates of final closure and post-closure reserves relating to two ash monofil landfills; (iii) a decrease of \$5.7 million to eliminate a retroactive application, from the date of the WM Holdings Merger, of an extension in the useful life of certain waste-to-energy facilities; (iv) a decrease of \$2.2 million for miscellaneous adjustments; and (v) an increase of \$10 million for a revision of remediation liabilities associated with the Company's international operations that was identified but not recorded in the three months ended March 31, 1999.

2. BUSINESS COMBINATIONS

On July 16, 1998, the Company, then known as USA Waste Services, Inc., completed a merger accounted for as a pooling of interests with Waste Management, Inc., which was subsequently renamed Waste Management Holdings, Inc. ("WM Holdings") (the "WM Holdings Merger"). At the effective time of the WM Holdings Merger, the Company changed its name to Waste Management, Inc. On December 31, 1998, the Company consummated a merger with Eastern Environmental Services, Inc. ("Eastern") (the "Eastern Merger") accounted for using the pooling of interests method of accounting.

In connection with the WM Holdings Merger and the Eastern Merger, the Company incurred significant merger costs and unusual items in the third and fourth quarters of 1998 as described in the Company's 1998 Annual Report on Form 10-K. Additionally, the Company has recorded \$62.2 million and \$79.7 million of merger costs for the three and six months ended June 30, 1999, respectively, and expects to record approximately \$27.4 million throughout the remainder of 1999 for merger costs that are transitional in nature and not accruable until incurred or committed.

The Company is in the process of settling its obligations under the WM Holdings defined benefit plan which was terminated as of December 31, 1998 and currently intends to liquidate the plan's assets and settle its obligations to participants. Actual cash cost of settling the plan can not be recorded until paid and is currently estimated to be approximately \$215.0 million, an increase of approximately \$90.0 million over the previous estimate. This increase is due to the availability of updated census data and revised actuarial assumptions in the formulation of the estimate. Due to the necessary review and approval process, management expects the payout to certain categories of participants to occur in 1999, with the remaining participants expected to be paid in 2000.

Certain WM Holdings' employee stock option plans included change of control provisions that were activated as a result of the WM Holdings Merger whereby the option holder received certain put rights that required charges to earnings through the put periods. To the extent the market value of the Company's common stock exceeded \$54.34 per share at the end of a quarter (the "measurement date"), the Company was required to record additional charges to earnings until July 16, 1999, at which time all put rights expired. The expense related to these stock option put rights would have had no impact on stockholders' equity, as the offset was a direct increase to additional paid in capital, since these put rights were satisfied by the issuance of common stock. As the market value of the Company's common stock was less than \$54.34 per share as of the date the put rights expired, there will be no charges to earnings in future periods related to the put rights.

Cash payments of \$153.9 million and \$295.9 million were made by the Company during the three and six months ended June 30, 1999, respectively, related to merger costs recorded in 1998 and 1999 for the WM Holdings Merger and the Eastern Merger.

Merger costs include estimates for anticipated losses related to the sales of assets pursuant to governmental orders and other asset divestiture plans. These anticipated losses have been estimated based on the Company's assessment of relevant facts and circumstances, including consideration of the various provisions of asset sale agreements. In certain instances, the asset sale agreements contain contingencies, the resolution of which are uncertain and may materially change the proceeds which the Company will ultimately

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

receive. Accordingly, dependent upon actual future experience and the resolution of certain contingencies, the amount of losses ultimately recorded by the Company could materially differ from amounts that have been recorded by the Company. During the second quarter of 1999, the Company resolved an outstanding contingency regarding its sale of assets to Republic Services, Inc., which reduced the loss on that sale by approximately \$80 million. Offsetting this amount, the Company (i) consummated its sale of 51% of its high organic waste fuels blending and on-site industrial cleaning services which resulted in losses of approximately \$5 million greater than previously estimated; (ii) increased its anticipated losses by approximately \$14 million related to the assets required to be sold pursuant to the Eastern Merger; and (iii) identified other non-core operations for disposition that have a book value of approximately \$36 million greater than the estimated proceeds.

During the six months ended June 30, 1999, the Company consummated over 150 acquisitions that were accounted for under the purchase method of accounting. The total cost of acquisitions was approximately \$720.4 million, which includes cash paid, common stock issued and debt assumed.

3. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	JUNE 30, 1999	DECEMBER 31, 1998
	-----	-----
Bank borrowings.....	\$ 236,845	\$ 1,903,100
Commercial paper, average interest of 5.3% in 1999 and 5.7% in 1998.....	1,507,325	840,108
Senior notes and debentures, interest 6% to 8 3/4%, due through 2029.....	6,947,895	5,959,884
4% Convertible subordinated notes due 2002.....	535,275	535,275
4 1/2% Convertible subordinated notes due 2001.....	--	148,370
5% Convertible subordinated debentures due 2006.....	--	114,445
5.75% Convertible subordinated notes due 2005.....	456,601	453,680
Tax-exempt and project bonds, principal payable in periodic installments, maturing through 2021, fixed and variable interest rates ranging from 3.55% to 9.25% at June 30, 1999.....	1,178,771	1,220,634
Installment loans, notes payable and other, interest to 14%, maturing through 2017.....	439,264	522,447
	-----	-----
	11,301,976	11,697,943
Less current maturities.....	369,592	583,742
	-----	-----
	\$10,932,384	\$11,114,201
	=====	=====

At June 30, 1999, there were no borrowings outstanding under the Company's \$3.0 billion syndicated loan facility (the "Syndicated Facility") or the Company's \$2.0 billion senior revolving credit facility (the "Credit Facility"). The facility fees were 0.08% and 0.105% per annum under the Syndicated Facility and Credit Facility, respectively, at June 30, 1999. The Company had issued letters of credit of \$1.2 billion in aggregate under the Syndicated Facility and Credit Facility at June 30, 1999. Additionally, the Company has two multi-currency credit facilities which had an outstanding balance as of June 30, 1999 totaling euro 229.0 million (equivalent to approximately \$236.8 million). The interest rates on the two outstanding loans under the multi-currency credit facilities at June 30, 1999, were 5.8% and 3.0%.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

On March 4, 1996, the Company issued \$115.0 million of 5% convertible subordinated debentures, due on March 1, 2006. In March 1999, these debentures were called for redemption by the Company and subsequently converted into equity by the debenture holders. Approximately 4.0 million shares of the Company's common stock were issued upon such conversions.

On June 5, 1996, the Company issued \$150.0 million of 4 1/2% convertible subordinated notes, due June 1, 2001. In June 1999, these debentures were called for redemption by the Company and subsequently converted into equity by the debenture holders. Approximately 4.9 million shares of the Company's common stock were issued upon such conversions.

On May 21, 1999, the Company completed a private placement of \$1.15 billion of its senior notes. The Company issued \$200.0 million of 6% senior notes, due 2001; \$200.0 million of 6 1/2% senior notes due 2004; \$500.0 million of 6 7/8% senior notes due 2009; and \$250.0 million of 7 3/8% senior notes due 2029. The senior notes constitute senior and unsecured obligations of the Company ranking equal in right of payment with all other senior and unsecured obligations of the Company, as defined in the indenture. The 6% senior notes are not redeemable by the Company. The 6 1/2% senior notes, the 6 7/8% senior notes, and 7 3/8% senior notes are redeemable, in whole or in part, at the option of the Company at any time, or from time to time, at a redemption price defined in the indenture. Interest is payable semi-annually on May 15 and November 15. All proceeds from the private placement notes were used to repay outstanding debt under the Credit Facility and to reduce the amount of commercial paper outstanding.

4. INCOME TAXES

The difference in income taxes at the statutory federal income tax rate and the provision for income taxes for the three and six months ended June 30, 1999 and 1998, respectively, is primarily due to state and local income taxes and non-deductible costs related to acquired intangibles.

5. EARNINGS PER SHARE

The following table reconciles the number of common shares outstanding at June 30 of each year indicated to the weighted average number of common shares outstanding and the weighted average number of common and dilutive potential common shares outstanding for the respective three and six month periods for the purposes of calculating basic and dilutive earnings per common share (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Number of common shares outstanding.....	617,181	592,323	617,181	592,323
Effect of using weighted average common shares outstanding.....	(6,277)	(16,475)	(10,504)	(21,528)
Weighted average number of common shares outstanding.....	610,904	575,848	606,677	570,795
Dilutive effect of common stock options and warrants.....	9,847	6,470	9,906	5,491
Dilutive effect of convertible subordinated notes and debentures.....	25,965	31,630	28,136	31,648
Weighted average number of common and dilutive potential common shares outstanding.....	646,716	613,948	644,719	607,934

For the three and six months ended June 30, 1999, interest (net of taxes) of \$6.3 million and \$13.5 million, respectively, has been added to net income for the diluted earnings per share calculation. For

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the three and six months ended June 30, 1998, interest (net of taxes) of \$7.6 million and \$15.1 million, respectively, has been added to net income for the diluted earnings per share calculation.

At June 30, 1999, there were approximately 59 million shares of common stock potentially issuable with respect to stock options, warrants and convertible debt, which could dilute basic earnings per share in the future.

6. COMPREHENSIVE INCOME

Comprehensive income represents the change in equity of an enterprise 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 are as follows for the periods indicated (in thousands):

	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	MINIMUM PENSION LIABILITY ADJUSTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME
	-----	-----	-----
Balance, December 31, 1998.....	\$(353,642)	\$(67,162)	\$(420,804)
Current-period change.....	(104,016)	--	(104,016)
	-----	-----	-----
Balance, June 30, 1999.....	\$(457,658)	\$(67,162)	\$(524,820)
	=====	=====	=====

7. ENVIRONMENTAL LIABILITIES

The Company has material financial commitments for the costs associated with its future obligations for final closure, which is the closure of the final cell of a landfill, and the regulatory required costs associated with existing operations at a hazardous waste treatment, storage or disposal facility which are subject to the Toxic Substances Control Act ("TSCA") or the Resource Conservation and Recovery Act ("RCRA"), and also, the post-closure of such facilities. For landfills, estimates for final 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. The estimated final closure and post-closure liabilities are accrued at a rate discounted to present dollars and charged to expense as airspace is consumed. At the time the site discontinues accepting waste and is closed, the total estimated final closure costs and the post-closure costs will be accrued to the required present value of such estimates.

The Company has also established procedures to evaluate its potential remedial liabilities at closed sites which it owns or operates, or to which it transported waste, including 84 sites listed on the Superfund National Priorities List ("NPL") as of June 30, 1999. The majority of situations involving NPL sites relate to allegations that subsidiaries of the Company (or their predecessors) transported waste to the facilities in question, often prior to the acquisition of such subsidiaries by the Company. Where the Company concludes that it is probable that a liability has been incurred, a provision is made in its consolidated financial statements.

Estimates of final closure and post-closure liabilities at the Company's landfills, the extent of the Company's responsibility for remediation of particular closed sites and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult. As such, the ultimate outcome may differ from current estimates. However, the Company believes that its extensive experience in the environmental services business, as well as its involvement with a large number of sites, provide a reasonable basis for estimating its aggregate liability. As additional information becomes available, estimates are adjusted as necessary. While the Company does not anticipate that any such adjustment would be material to its consolidated financial statements, it is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the existence and ability of other potentially responsible

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

parties to contribute to the settlement of such liabilities, or other factors could necessitate the recording of additional liabilities which could be material.

The Company has filed suit against numerous insurance carriers seeking reimbursement for past and future remedial, defense and tort claim costs at a number of sites. Carriers involved in these matters have typically denied coverage and are defending against the Company's claims. While the Company is vigorously pursuing these claims, it regularly considers settlement opportunities when appropriate terms are offered. Settlements of \$4.5 million and \$7.1 million in the three and six months ended June 30, 1999, respectively, and \$37.5 million and \$42.0 million for the three and six months ended June 30, 1998, respectively, have been included in operating costs and expenses as an offset to environmental expenses.

8. COMMITMENTS AND CONTINGENCIES

Financial instruments -- Letters of credit, performance bonds and other guarantees have been provided by the Company supporting tax-exempt bonds, performance of final closure and post-closure requirements, insurance policies, and other contracts. The insurance policies are issued by a wholly-owned insurance subsidiary of the Company, the sole business of which is to issue such policies to customers of the Company. Management does not expect these financial instruments to have a material effect on the Company's consolidated financial statements as virtually no claims have been made in the past against these financial instruments.

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk, such as bank letters of credit, performance bonds and other guarantees, which are not reflected in the condensed consolidated balance sheets. Management does not expect any material losses to result from these off-balance sheet instruments as virtually no claims have been made in the past against these financial instruments.

Environmental matters -- The Company's operations are 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. See Note 7 for further discussion.

Litigation -- In November and December 1997, several alleged purchasers of WM Holdings securities (including but not limited to common stock), who allegedly bought their securities during 1996 and 1997, brought fourteen purported class action lawsuits against WM Holdings and several of its current and former officers and directors in the United States District Court for the Northern District of Illinois. Each of these lawsuits asserted that the defendants violated the federal securities laws by issuing allegedly false and misleading statements in 1996 and 1997 about WM Holdings' financial condition and results of operations. The lawsuits demanded, among other relief, unspecified compensatory damages, pre- and post-judgment interest, attorneys' fees and the costs of conducting the litigation. In January 1998, the fourteen putative class actions were consolidated before one judge. In May 1998, the plaintiffs filed a consolidated amended complaint against WM Holdings and four of its former officers, which was amended in July 1998 to add WM Holdings' outside auditor and another former officer as additional defendants. The amended complaint seeks recovery on behalf of a proposed class of all purchasers of WM Holdings' securities between May 29, 1995, and October 30, 1997. The amended complaint alleges, among other things, that WM Holdings filed false and misleading financial statements beginning in 1991 and continuing through October 1997 and seeks recovery for alleged violations of the federal securities laws between May 1995 and October 1997.

In December 1998, the Company announced an agreement to settle the consolidated action against all defendants and the establishment of a settlement fund of \$220 million for the class of open market purchasers

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of WM Holdings securities between November 3, 1994, and February 24, 1998. The settlement agreement with the plaintiffs is still subject to the requirements of notice to the class and final approval by the Court after a hearing. There can be no assurances that the Court will find the settlement to be fair to the class. Also, because otherwise eligible members of the class may opt out of the lawsuit, there can be no assurances that WM Holdings will not be a party to additional lawsuits or claims brought by open market purchasers of the Company's securities.

Two alleged purchasers of WM Holdings' securities are pursuing an action arising out of the same set of facts in Illinois state court alleging violations of Illinois state law. One of these purchasers, together with two other alleged purchasers, has initiated another action based on the same set of facts in federal court in Florida alleging violations of the federal securities laws.

Additionally, there are several other actions and claims that arise out of the same set of facts that have been brought by business owners who received WM Holdings common stock in the sales of their businesses to WM Holdings. These actions and claims, one of which purports to be class action, allege, among other things, breach of warranty or breach of contract based on WM Holdings' restatement of earnings in February 1998. In April 1999, courts having jurisdiction over two such actions, including the purported class action, granted summary judgement against WM Holdings and in favor of the individual plaintiffs who brought the respective claims on the issue of breach of contract. The extent of damages, if any, in either action has not yet been determined.

Purported derivative actions have also been filed in Delaware Chancery Court by alleged former shareholders of WM Holdings against certain former officers and directors of WM Holdings and nominally against WM Holdings to recover damages caused to WM Holdings as a result of the consolidated federal securities class action pending in federal court in the Northern District of Illinois. These actions have been consolidated and plaintiffs have filed a consolidated amended complaint. The plaintiffs seek to recover from the former officers and directors, on behalf of WM Holdings, the amounts paid in the federal class action as well as additional amounts based on alleged harms not at issue in the federal class action.

It is not possible at this time to predict the impact that the above lawsuits may have on WM Holdings or the Company, nor is it possible to predict whether any other suits or claims may arise out of these matters in the future. However, it is reasonably possible that the outcome of any present or future litigation may have a material adverse impact on their respective financial conditions or results of operations in one or more future periods. WM Holdings intends to defend itself vigorously in all the above matters.

The Company is also aware that the United States Securities and Exchange Commission ("SEC") has commenced a formal investigation with respect to WM Holdings' previously filed financial statements (which were subsequently restated) and related accounting policies, procedures and system of internal controls. The Company intends to cooperate with such investigation. The Company is unable to predict the outcome or impact of this investigation at this time.

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three months ended March 31, 1999 may have included certain non-recurring pretax income items. Between July 8, 1999 and August 4, 1999, several lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 2, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock at prices known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the respective courts deem proper.

In addition, two of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. These lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and in the United States District Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged common stock sales during the three months ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan who purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the Plan bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These Plan participants have indicated in the letter that, absent action by the Plan, they intend to sue the Company and the directors and officers on behalf of the Plan and its participants.

In addition, the SEC has notified the Company of an informal inquiry into the period ended June 30, 1999, as well as certain sales of the Company's common stock that preceded the Company's July 6, 1999 earnings announcement.

The New York Stock Exchange has notified the Company that its Market Trading Analysis Department is reviewing transactions in the common stock of the Company prior to the July 6, 1999 earnings forecast announcement.

The Company is conducting a thorough investigation of each of the allegations that have been made in connection with the Company's second quarter 1999 earnings communications. As part of this investigation, the Company's Board of Directors has authorized a review of the allegations that have been made against certain of the Company's officers and directors. Roderick M. Hills, a former chairman of the SEC and chairman of the Company's audit committee, is directing the review.

The Company has received a Civil Investigative Demand ("CID") from the Antitrust Division of the United States Department of Justice inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the United States Department of Justice with certain documents to assist it in its inquiry.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purports to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the WM Holdings defined benefit pension plan. On behalf of the purported class, the plaintiff seeks compensatory and punitive damages, costs, restitution with interest, and such other relief as the Court deems proper.

It is not possible at this time to predict the impact that the above lawsuits and inquiries may have on WM Holdings or the Company, nor is it possible to predict whether any other suits or claims may arise out of these matters in the future. However, it is reasonably possible that the outcome of any present or future

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

litigation or inquiries may have a material adverse impact on their respective financial conditions or results of operations in one or more future periods. The Company and WM Holdings intend to defend themselves vigorously in all the above matters.

The continuing business in which the Company is engaged is intrinsically connected with the protection of the environment and the potential for the unintended or unpermitted discharge of materials into the environment. In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the foreign, federal, state, and local level, including, in certain instances, proceedings instituted by citizens or local governmental authorities seeking to overturn governmental action where governmental officials or agencies are named as defendants together with the Company or one or more of its subsidiaries, or both. In the majority of the situations where proceedings are commenced by governmental authorities, the matters involved related to alleged technical violations of licenses or permits pursuant to which the Company operates or is seeking to operate or laws or regulations to which its operations are subject or are the result of different interpretations of applicable requirements. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. The Company believes that these matters will not have a material adverse effect on its results of operations or financial condition. However, the outcome of any particular proceeding cannot be predicted with certainty, and the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time.

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 which is alleged to have contaminated the environment or, in certain cases, conducted environmental remediation activities at sites. Some of such 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.

The Company or certain of its subsidiaries have been identified as potentially responsible parties in a number of governmental investigations and actions relating to waste disposal facilities which may be subject to remedial action under the Comprehensive Environmental Response, Compensation and Liabilities Act of 1980, as amended ("CERCLA" or "Superfund"). The majority of these proceedings are based on 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. 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.

In June 1999, the Company was notified that the EPA is conducting a civil investigation of alleged chlorofluorocarbons ("CFC") disposal violations by Waste Management of Massachusetts, Inc. ("WMMA") to determine whether further enforcement measures are warranted. The activities giving rise to the allegations of CFC disposal violations appear to have occurred prior to July 30, 1998. On July 29, 1998, the EPA inspected WMMA's operations, notified the Company of the alleged violations and issued an Administrative Order in January 1999 requiring WMMA to comply with the CFC regulations. WMMA is cooperating with

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the investigation, and the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

As of June 30, 1999, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 84 locations listed on the NPL. Of the 84 NPL sites at which claims have been made against 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 sited 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 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 67 NPL sites at which claims have been made against the Company and which 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.

The Company has been advised by the United States Department of Justice that Laurel Ridge Landfill, Inc., a wholly owned subsidiary of the Company as a result of the Company's acquisition of United Waste Systems, Inc. ("United") in August 1997, allegedly committed certain violations of the Clean Water Act at the Laurel Ridge Landfill in Kentucky. The alleged activities occurred during a period prior to the Company's acquisition of United. In May 1999, the Company pleaded guilty to a criminal misdemeanor and, subject to court approval, agreed to pay a fine and perform in kind services. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

In March 1999, the Company was notified that All Waste Systems, Inc. ("All Waste") and two other indirect subsidiaries acquired in the Eastern Merger, as well as a current employee of the Company, were suspended from future contracting with any agency in the executive branch of the United States Government pending proceedings. The suspension and potential debarment are based on a September 1997 conviction of All Waste of mail fraud and other activities that occurred prior to the ownership of the entities by Eastern. In May 1999, the United States Government removed the three entities from the suspension and proposed debarment list due to a lack of nexus between the activities in question and the current ownership of the Company.

In February 1999, a San Bernardino County, California grand jury returned an amended felony indictment against the Company, certain of its subsidiaries and their current or former employees, and a County employee. The proceeding is based on events that allegedly occurred prior to the WM Holdings Merger in connection with a WM Holdings landfill development project. The indictment includes allegations that certain of the defendants engaged in conduct involving fraud, wiretapping, theft of a trade secret and manipulation of computer data, and that they engaged in a conspiracy to do so. If convicted, the most serious of the available sanctions against the corporate defendants would include substantial fines and forfeitures. The Company believes that meritorious defenses exist to each of the allegations, and the defendants are vigorously contesting them. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

The Company has brought suit against a substantial number of insurance carriers in an action entitled Waste Management, Inc. et al. v. The Admiral Insurance Company, et al. pending in the Superior Court in Hudson County, New Jersey. In this action the Company is seeking a declaratory judgment that environmental liabilities asserted against the Company or its subsidiaries, or that may be asserted in the future, are covered by insurance policies purchased by the Company or its subsidiaries. The Company is also seeking to recover defense costs and other damages incurred as a result of the assertion of environmental liabilities

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

against the Company or its subsidiaries for events occurring over at least the last 25 years at approximately 140 sites and the defendant insurance carriers' denial of coverage of such liabilities. While the Company has reached settlements with some of the carriers, the remaining defendants have denied liability to the Company and have asserted various defenses, including that environmental liabilities of the type for which the Company is seeking relief are not risks covered by the insurance policies in question. The remaining defendants are contesting these claims vigorously. Discovery is complete as to the 12 sites in the first phase of the case and discovery is expected to continue for several years as to the remaining sites. Currently, trial dates have not been set. The Company is unable at this time to predict the outcome of this proceeding. No amounts have been recognized in the Company's condensed consolidated financial statements for potential recoveries.

The Company and certain of its subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of their business. While the outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty, the Company believes that these matters will not have a material adverse effect on its consolidated financial statements.

Tax Matters -- During the first quarter of 1995, WMI Sellbergs AB, a Swedish subsidiary, received an assessment from the Swedish Tax Authority of approximately 417 million Krona (approximately \$49.3 million based on June 30, 1999 exchange rates) plus interest from the date of the assessment, relating to a transaction completed in 1990. On November 4, 1998, the County Court of the County of Stockholm ruled in favor of WMI Sellbergs AB. However, the Swedish Tax Authority has appealed that decision. The Company believes that all appropriate tax returns and disclosures were properly filed at the time of the transaction and intends to vigorously contest the appeal.

9. NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and derivatives used for hedging purposes. SFAS No. 133 requires that entities recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective for the Company in its first fiscal quarter in 2001. Management is currently assessing the impact that the adoption of SFAS No. 133 will have on the Company's consolidated financial statements.

10. SEGMENT AND RELATED INFORMATION

The Company's North American solid waste management operations are its principal reportable segment. This segment provides integrated waste management services consisting of collection, transfer, disposal (solid waste landfill, hazardous waste landfill and waste-to-energy), recycling, and other services provided to commercial, industrial, municipal and residential customers. Similar operations in markets outside of North America are disclosed as a separate segment. The Company's other reportable segment consists of non-solid waste services, aggregated as a single segment for this reporting presentation. The non-solid waste segment includes other hazardous waste services such as chemical waste management services and low-level and other radioactive waste services, the Company's independent power projects, and other non-solid waste services to commercial, industrial and government customers, and includes certain other business lines that were in part sold to Vivendi SA on June 30, 1999.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized financial information concerning the Company's reportable segments is shown in the following table. Prior period information has been restated to conform to the segments described above, which are based on the structure and internal organization of the Company as of June 30, 1999 (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	CORPORATE FUNCTIONS(A)	TOTAL
	-----	-----	-----	-----	-----
Three Months Ended:					
June 30, 1999					
Net operating revenues(b)...	\$2,701,147	\$386,713	\$246,715	\$ --	\$3,334,575
Earnings before interest and taxes(c).....	781,014	40,602	22,757	(46,928)	797,445
June 30, 1998					
Net operating revenues(b)...	\$2,626,835	\$376,246	\$247,650	\$ --	\$3,250,731
Earnings before interest and taxes(c).....	658,608	30,626	34,349	(151,961)	571,622
Six Months Ended:					
June 30, 1999					
Net operating revenues(b)...	\$5,212,680	\$757,804	\$434,726	\$ --	\$6,405,210
Earnings before interest and taxes(c).....	1,484,135	76,049	49,299	(34,456)	1,575,027
June 30, 1998					
Net operating revenues(b)...	\$5,023,629	\$744,798	\$451,737	\$ --	\$6,220,164
Earnings before interest and taxes(c).....	1,152,724	58,846	47,704	(225,386)	1,033,888

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- a) Corporate functions include the corporate treasury function (except for limited amounts of locally negotiated and managed project debt), administration of corporate tax function, the corporate insurance function, management of closed landfill and related insurance recovery functions, administration of certain international remediation liabilities along with other typical administrative functions.
- b) Non-Solid Waste revenues are net of inter-segment revenue with North American Solid Waste of \$25.7 million and \$52.8 million for the three and six months ended June 30, 1999, respectively, and \$35.8 million and \$54.0 million for the three and six months ended June 30, 1998, respectively. There are no other significant sales between segments.
- c) For those items included in the determination of EBIT (the earnings measurement used by management to evaluate operating performance), the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The reconciliation of total EBIT reported above to net income is as follows
(in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
EBIT, as reported above.....	\$797,445	\$571,622	\$1,575,027	\$1,033,888
(Plus) less:				
Merger costs.....	62,211	7,361	79,695	14,963
Asset impairments and unusual items...	19,750	--	19,750	--
Income from continuing operations held for sale, net.....	--	(4,986)	--	(2,570)
Interest expense.....	184,911	173,554	361,068	329,085
Interest income.....	(5,663)	(8,322)	(8,481)	(14,504)
Minority interest.....	6,547	12,864	13,009	38,166
Other income.....	(16,215)	(40,058)	(30,578)	(110,432)
Income before income taxes and extraordinary item.....	545,904	431,209	1,140,564	779,180
Provision for income taxes.....	227,642	184,439	475,614	350,994
Income before extraordinary item.....	318,262	246,770	664,950	428,186
Extraordinary item, net of taxes.....	--	(3,900)	--	(3,900)
Net income.....	\$318,262	\$242,870	\$ 664,950	\$ 424,286

11. SUBSEQUENT EVENTS

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three months ended March 31, 1999 may have included certain non-recurring pretax income items. Between July 8, 1999 and August 4, 1999, several lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 2, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock at prices known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the respective courts deem proper.

In addition, two of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. These lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and in the United States District Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged stock sales during the three-month period ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan who purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the Plan bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These Plan participants have indicated in the letter that, absent action by the Plan, they intend to sue the Company and the directors and officers on behalf of the Plan and its participants.

In addition, the SEC has notified the Company of an informal inquiry into the period ended June 30, 1999, as well as certain sales of the Company's common stock that preceded the Company's July 6, 1999 earnings announcement.

The New York Stock Exchange has notified the Company that its Market Trading Analysis Department is reviewing transactions in the common stock of the Company prior to the July 6, 1999 earnings forecast announcement.

The Company is conducting a thorough investigation of each of the allegations that have been made in connection with the Company's second quarter 1999 earnings communications. As part of this investigation, the Company's Board of Directors has authorized a review of the allegations that have been made against certain of the Company's officers and directors. Roderick M. Hills, a former chairman of the SEC and chairman of the Company's audit committee, is directing the review.

The Company has received a CID from the Antitrust Division of the United States Department of Justice inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the Department of Justice with certain documents to assist it in its inquiry.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purports to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the WM Holdings defined benefit pension plan. On behalf of the purported class, the plaintiff seeks compensatory and punitive damages, costs, restitution with interest, and such other relief as the Court deems proper.

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

An Executive Committee of the Board of Directors of the Company has been formed consisting of Ralph V. Whitworth, Roderick M. Hills, Jerome P. York and Robert S. Miller. The Board of Directors has appointed Mr. Whitworth, a managing member of Relational Investors LLC, as Chairman of the Executive Committee.

Rodney R. Proto has relinquished his position as the Company's President and Chief Operating Officer and as a member of the Board of Directors. Earl E. DeFrates has resigned as Chief Financial Officer but will remain with the Company as Executive Vice President to assist senior management. Gregory T. Sangalis has resigned as the Company's General Counsel.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's Board of Directors has appointed Ralph V. Whitworth its Chairman. The Company's former Chairman, John E. Drury, will remain a member of the Board of Directors.

The Company has initiated a search for a new Chief Executive Officer, Chief Financial Officer and General Counsel. Pending the conclusion of this search, the Company's Board of Directors has appointed Robert S. Miller as the Company's Chief Executive Officer and President. Mr. Miller served as Chairman of the Board of the Company from July 1998 until May 1999 and was a director of WM Holdings from October 1997 to July 1998. Mr. Miller serves as Vice Chairman of Morrison Knudsen Corporation, an engineering and construction firm. He also served as Chief Executive Officer of Federal-Mogul Corporation from September 1996 until November 1996 and as Chairman of Morrison Knudsen Corporation from April 1995 until September 1996. In addition, since 1993 he has served as Vice President and Treasurer of Moore Mill and Lumber, a privately held forest product firm, and from 1992 to 1993, he served as Senior Partner of James D. Wolfensohn, Inc. an investment banking firm. From 1979 to 1992, Mr. Miller was with Chrysler Corporation ("Chrysler"), an automobile and truck manufacturing firm, rising to become Vice-Chairman of the Board after serving as Chrysler's Chief Financial Officer. Mr. Miller is a director of Federal-Mogul Corporation, Morrison Knudsen Corporation, Pope & Talbot, Inc., and Symantec Corporation.

The Company's Board of Directors has instituted a strategic initiative aimed at increasing shareholder value. The Company has engaged Chase Securities, Inc. and Donaldson, Lufkin & Jenrette Securities Corporation as financial advisors to assist the Company in this matter. The plan calls for disposition of some or all of the Company's International assets, a substantial majority of the Company's non-core assets, and certain non-strategic North American solid waste assets that may account for up to 10% of the Company's operating revenues from that sector. The Company intends immediately to initiate the disposition of these assets, and plans to substantially complete these asset sales in the next 12 months, although there can be no assurance that these dispositions will be completed in the time frame contemplated. The Company expects to use the proceeds of these asset dispositions as they are realized to repay debt, repurchase shares and pursue tuck-in acquisitions.

In response to the Company's current quarter results and revision of its future earnings estimates, long term debt and commercial paper ratings were lowered by Moody's and Standard & Poor's credit rating agencies. The ratings continue to be under review and further ratings deterioration may result. An objective of the Company's strategic initiative is to maintain its long-term investment grade characteristics. There can be no assurance that such characteristics can be maintained.

In light of the decline in credit ratings, the Company has ceased the issuance of commercial paper at this time. The Company expects to use existing credit facilities to redeem outstanding commercial paper and to meet future liquidity requirements. The Company expects to incur higher borrowing costs for the foreseeable future as a result of the above actions. The Company is consulting with its financial advisors to determine the optimal approach for structuring its credit facilities in light of its announced strategic initiatives.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The discussion below and elsewhere in this Form 10-Q includes statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These include statements that describe anticipated revenues, capital expenditures and other financial items, statements that describe the Company's business plans and objectives, and statements that describe the expected impact of competition, government regulation, litigation, and other factors on the Company's future financial condition and results of operation. The words "may," "expect," "believe," "anticipate," "project," "estimate," and similar expressions are intended to identify forward-looking statements. Such risks and uncertainties, any one of which may cause actual results to differ materially from those described in the forward-looking statements, include or relate to, among other things:

- the Company's ability to successfully integrate the operations of acquired companies with its existing operations, including risks and uncertainties relating to its ability to achieve projected earnings estimates, achieve administrative cost savings, rationalize collection routes, integrate information systems, implement an effective pricing strategy, and generally capitalize on its asset base and strategic position through its strategy of decentralized decision making, and the risks and uncertainties regarding government forced divestitures.
- the Company's ability to continue its expansion through the acquisition of other companies, including, without limitation, risks and uncertainties concerning the availability of desirable acquisition candidates, the availability of debt and equity capital to the Company to finance acquisitions, and the ability of the Company to accurately assess the prior existing liabilities and assets of acquisition candidates and the restraints imposed by federal and state statutes and agencies regarding market concentration and competitive behavior.
- the effect of competition on the Company's ability to maintain margins on existing or acquired operations, including uncertainties relating to competition with government owned and operated landfills which enjoy certain competitive advantages from tax-exempt financing and tax revenue subsidies.
- the potential impact of environmental and other regulation on the Company's business, including risks and uncertainties concerning the ultimate cost to the Company of complying with final closure requirements and post-closure liabilities associated with its landfills and other environmental liabilities associated with disposal at third party landfills and the ability to obtain and maintain permits necessary to operate its facilities, which may impact the life, operating capacity and profitability of its landfills and other facilities.
- the potential impact of pending or threatened litigation and governmental inquiries involving the Company.
- the quantification and accounting treatment of costs relating to the Company's determination to terminate the WM Holdings defined pension benefit plan as of December 31, 1998.
- the potential changes in estimates from ongoing analysis of site remediation requirements, final closure and post-closure issues, compliance and other audits and regulatory developments.
- the effectiveness of changes in management and the ability of the Company to retain qualified individuals to serve as Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel.
- the uncertainties relating to the Company's proposed strategic initiative, including the willingness of prospective purchasers to purchase the assets the Company identifies as divestiture candidates on terms the Company finds acceptable, the timing and terms on which such assets may be sold, uncertainties relating to regulatory approvals and other factors affecting the ability of prospective purchasers to consummate such transactions, including the availability of financing and uncertainties relating to the impact of the proposed strategic initiatives on the Company's credit ratings and consequently the availability and cost of debt and equity financing to the Company.

Additional information regarding these and/or other factors that could materially affect future results and the accuracy of the forward-looking statements contained herein may be found in Part I, Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

INTRODUCTION

The Company is a global leader in providing integrated waste management services. In North America, the Company provides solid waste management services throughout the U.S., as well as in Canada, Mexico and Puerto Rico, including collection, transfer, recycling and resource recovery services, and disposal services, including the landfill disposal of hazardous wastes. In addition, the Company is a leading developer, operator and owner of waste-to-energy facilities in the U.S. The Company also engages in other hazardous waste management services throughout North America, as well as low-level and other radioactive waste services. Internationally, the Company operates throughout Europe, the Pacific Rim, South America and other select international markets. Included in the Company's international operations is the collection and transportation of solid, hazardous and medical wastes and recyclable materials and the treatment and disposal of recyclable materials. The Company also operates solid and hazardous waste landfills, municipal and hazardous waste incinerators, water and waste water treatment facilities, hazardous waste treatment facilities, waste-fuel powered independent power facilities, and constructs treatment or disposal facilities for third parties internationally. The Company's diversified customer base includes commercial, industrial, municipal and residential customers, other waste management companies, governmental entities and independent power markets.

The Company's operating revenues from waste management operations consist primarily of fees charged for its collection and disposal services. Operating revenues for collection services include fees from residential, commercial, industrial, and municipal collection customers. A portion of these fees are billed in advance; a liability for future service is recorded upon receipt of payment and operating revenues are recognized as services are actually provided. Fees for residential and municipal collection services are normally based on the type and frequency of service. Fees for commercial and industrial services are normally based on the type and frequency of service and the volume of waste collected. The Company's operating revenues from its disposal operations consist of disposal fees (known as tipping fees) charged to third parties and are normally billed monthly or semi-monthly. Tipping fees are based on the volume or weight of waste being disposed of at the Company's disposal facilities. Fees are charged at transfer stations based on the volume or weight of waste deposited, taking into account the Company's cost of loading, transporting, and disposing of the solid waste at a disposal site. Intercompany revenues between the Company's operations have been eliminated in the condensed consolidated financial statements presented elsewhere herein.

Operating expenses from waste management operations include direct and indirect labor and the related taxes and benefits, fuel, maintenance and repairs of equipment and facilities, tipping fees paid to third party disposal facilities, property taxes, and accruals for future landfill final closure and post-closure costs. Certain direct 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. All indirect development expenses, such as administrative salaries and general corporate overhead, are expensed in the period incurred.

General and administrative costs include management salaries, clerical and administrative costs, professional services, facility rentals, and related insurance costs, as well as costs related to the Company's marketing and sales force.

Depreciation and amortization include (i) amortization of the excess of cost over net assets of acquired businesses on a straight-line basis over a period not greater than 40 years commencing on the dates of the respective acquisitions; (ii) amortization of other intangible assets on a straight-line basis from 3 to 40 years; (iii) depreciation of property and equipment on a straight-line basis from 3 to 40 years; and (iv) amortization of landfill airspace on a units-of-production method over the estimated useful life of a site as airspace of the landfill is consumed. Depreciation and amortization can vary from period to period due to the changes in volumes of waste disposed of at the Company's landfills.

RESULT OF OPERATIONS

The Company has revised certain items included in its previously reported unaudited financial statements for the three months ended March 31, 1999. See Note 1 to the condensed consolidated financial statements. Except as otherwise expressly stated, all financial information in this Quarterly Report on Form 10-Q is presented inclusive of such changes.

The following table presents, for the periods indicated, the period to period change in dollars (in thousands) and percentages for the various condensed consolidated statements of operations line items and for certain supplementary data.

	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 1999 AND 1998		PERIOD TO PERIOD CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998	
	-----		-----	
STATEMENT OF OPERATIONS:				
Operating revenues.....	\$ 83,844	2.6%	\$ 185,046	3.0%
	-----		-----	
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	(43,990)	(2.3)	(168,468)	(4.5)
General and administrative.....	(94,959)	(25.0)	(184,625)	(25.3)
Depreciation and amortization.....	(3,030)	(0.8)	(3,000)	(0.4)
Merger costs.....	54,850	745.1	64,732	432.6
Asset impairments and unusual items.....	19,750	--	19,750	--
Income from continuing operations held for sale, net of minority interest.....	4,986	100.0	2,570	100.0
	-----		-----	
	(62,393)	(2.3)	(269,041)	(5.2)
	-----		-----	
Income from operations.....	146,237	25.7	454,087	44.5
	-----		-----	
Other income (expense):				
Interest expense.....	(11,357)	(6.5)	(31,983)	(9.7)
Interest income.....	(2,659)	(32.0)	(6,023)	(41.5)
Minority interest.....	6,317	49.1	25,157	65.9
Other income.....	(23,843)	(59.5)	(79,854)	(72.3)
	-----		-----	
	(31,542)	(22.9)	(92,703)	(38.3)
	-----		-----	
Income before income taxes and extraordinary item.....	114,695	26.6	361,384	46.4
Provision for income taxes.....	43,203	23.4	124,620	35.5
	-----		-----	
Income before extraordinary item.....	71,492	29.0	236,764	55.3
Extraordinary item, net of taxes.....	3,900	100.0	3,900	100.0
	-----		-----	
Net income.....	\$ 75,392	31.0%	\$ 240,664	56.7%
	=====		=====	
SUPPLEMENTARY DATA:				
EBITDA(1).....	\$143,207	15.0%	\$ 451,087	25.6%
EBITDA, as adjusted(1)(2).....	\$222,793	23.2%	\$ 538,139	30.3%

(1) EBITDA represents income from operations plus depreciation and amortization expense. EBITDA, which is not a measure of financial performance under generally accepted accounting principles, is provided because the Company understands that such information is used by certain investors when analyzing the financial position and performance of the Company.

(2) The EBITDA "as adjusted" further excludes merger costs, asset impairments and unusual items, and loss from continuing operations held for sale (net of minority interest).

The following table presents, for the periods indicated, the percentage relationship that the various condensed consolidated statements of operations line items and certain supplementary data bear to operating revenues:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
STATEMENT OF OPERATIONS:				
Operating revenues.....	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	56.0	58.8	55.3	59.7
General and administrative.....	8.5	11.7	8.5	11.7
Depreciation and amortization.....	11.5	11.9	11.6	12.0
Merger costs.....	1.9	0.2	1.2	0.2
Asset impairments and unusual items.....	0.6	--	0.3	--
Income from continuing operations held for sale, net of minority interest.....	--	(0.1)	--	--
	78.5	82.5	76.9	83.6
Income from operations.....	21.5	17.5	23.1	16.4
Other income (expense):				
Interest expense.....	(5.6)	(5.3)	(5.6)	(5.3)
Interest income.....	0.2	0.3	0.1	0.2
Minority interest.....	(0.2)	(0.4)	(0.2)	(0.6)
Other income.....	0.5	1.2	0.4	1.8
	(5.1)	(4.2)	(5.3)	(3.9)
Income before income taxes and extraordinary item.....	16.4	13.3	17.8	12.5
Provision for income taxes.....	6.8	5.7	7.4	5.6
Income before extraordinary item.....	9.6	7.6	10.4	6.9
Extraordinary item, net of taxes.....	--	(0.1)	--	(0.1)
Net income.....	9.6%	7.5%	10.4%	6.8%
SUPPLEMENTARY DATA:				
EBITDA(1).....	33.0%	29.4%	34.6%	28.4%
EBITDA, as adjusted(1)(2).....	35.4%	29.5%	36.2%	28.6%

(1) EBITDA represents income from operations plus depreciation and amortization expense. EBITDA, which is not a measure of financial performance under generally accepted accounting principles, is provided because the Company understands that such information is used by certain investors when analyzing the financial position and performance of the Company.

(2) The EBITDA "as adjusted" further excludes merger costs, asset impairments and unusual items, and loss from continuing operations held for sale (net of minority interest).

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND 1998

Operating Revenues

The Company's principal operations are North American solid waste management ("NASW"), which include all solid waste activities, such as collection, transfer operations, recycling and disposal. The NASW disposal operations encompass solid waste and hazardous waste landfills, as well as waste-to-energy facilities. In addition, the Company operates outside of North America in activities similar to its NASW operations ("WM International"). Furthermore, the Company performs certain non-solid waste services primarily in North America such as hazardous waste management, low-level and other radioactive waste management,

and waste fuel powered independent power facilities. Through June 30, 1999, the Company's non-solid waste services also included high organic waste fuels blending and on-site industrial cleaning services. However, on June 30, 1999, the Company sold a 51% interest in these operations to the French conglomerate Vivendi SA. The retained interest of 49% will be accounted for in future periods using the equity method of accounting.

For the three and six months ended June 30, 1999, the Company's operating revenues increased \$83.8 million or 2.6% and \$185.0 million or 3.0%, respectively, as compared to the corresponding 1998 period. The following table presents the operating revenues by reportable segment for the respective quarters (dollars in millions):

	THREE MONTHS ENDED JUNE 30,				SIX MONTHS ENDED JUNE 30,			
	1999		1998		1999		1998	
NASW.....	\$2,701.2	81.0%	\$2,626.8	80.8%	\$5,212.7	81.4%	\$5,023.6	80.8%
WM International.....	386.7	11.6	376.2	11.6	757.8	11.8	744.8	12.0
Non-solid waste.....	246.7	7.4	247.7	7.6	434.7	6.8	451.7	7.2
Operating revenues.....	\$3,334.6	100.0%	\$3,250.7	100.0%	\$6,405.2	100.0%	\$6,220.1	100.0%

The increase in the Company's operating revenues for the three and six months ended June 30, 1999 as compared to the 1998 periods is primarily due to NASW operations. The following table presents the Company's mix of operating revenues from NASW for the respective periods (dollars in millions):

	THREE MONTHS ENDED JUNE 30,				SIX MONTHS ENDED JUNE 30,			
	1999		1998		1999		1998	
NASW:								
Collection.....	\$1,895.7	58.9%	\$1,748.5	57.5%	\$3,685.0	59.7%	\$3,383.8	58.7%
Disposal.....	851.3	26.4	822.6	27.1	1,609.9	26.0	1,497.6	26.0
Transfer.....	314.8	9.8	282.0	9.3	580.4	9.4	520.5	9.0
Recycling and other....	157.9	4.9	187.0	6.1	301.1	4.9	363.5	6.3
	3,219.7	100.0%	3,040.1	100.0%	6,176.4	100.0%	5,765.4	100.0%
Intercompany.....	(518.5)		(413.3)		(963.7)		(741.8)	
Operating revenues.....	\$2,701.2		\$2,626.8		\$5,212.7		\$5,023.6	

The increase in operating revenues for the three and six months ended June 30, 1999 for NASW operations, as compared to the respective prior year periods, is primarily attributable to the acquisition of solid waste businesses, partially offset by the divestiture of certain solid waste operations. Acquisitions of NASW businesses during 1999 and the full year effect of such acquisitions completed during 1998 accounted for an increase in operating revenues of approximately \$180.1 million for the three months ended June 30, 1999 and \$321.2 million for the six months ended June 30, 1999 as compared to the prior year periods. NASW operating revenues also increased from internal growth of comparable operations of 0.5% and 2.6% for the three and six months ended June 30, 1999, respectively, as compared to the prior year periods. Price increases were 3.1% for the three months ended June 30, 1999 as compared to the prior year period, however were offset by the effect of a resulting decline in volumes of 2.6% for that period. Internal growth for the six months ended June 30, 1999 was comprised of 2.4% price and 0.2% volume. For the three and six months ended June 30, 1999, NASW operating revenues decreased as a result of the divestiture of solid waste operations with operating revenues of \$72.6 million and \$167.4 million in the respective prior year periods. NASW comparable operating revenues for the three and six months ended June 30, 1999, were also reduced by approximately \$17.4 million and \$34.1 million, respectively, due to the renewal of a biosolids management contract, which now excludes a capital cost recovery element and by approximately \$26.8 million and \$48.8 million, respectively, from a change in presentation of certain revenue items. NASW operating revenues were not significantly impacted by currency translation

fluctuations of the Canadian dollar.

WM International's operating revenues for the three and six months ended June 30, 1999 increased as a result of internal growth of 2.9% and 3.1%, respectively, and from acquisitions of solid waste operations with

revenues of \$23.0 million and \$28.3 million, respectively, as compared to the corresponding prior year periods. Additionally, the WM International operating revenues increased by \$4.6 million for both the three and six months ended June 30, 1999 as compared to respective prior year periods as a result of increased landfill disposal taxes in certain countries, which are passed through in disposal rates. These increases were offset by the disposition of operations with operating revenues of \$16.9 million and \$35.6 million in the three and six months ended June 30, 1998, respectively. Furthermore, foreign currency fluctuations of \$10.9 million and \$6.4 million decreased operating revenues for the three and six months ended June 30, 1999, respectively, as compared to the respective 1998 periods.

Operating revenues for Non-solid waste operations were comparable for the respective periods. The Company expects decreasing operating revenues from its Non-solid waste operations in future periods, as the Company has sold its industrial services and hazardous business units as discussed above and is actively marketing other Non-solid waste operations.

The Company believes that its NASW operating revenues in the three and six months ended June 30, 1999 may have been detrimentally affected by volumes that were under expectations and difficulties in integration of the operations of the merged company, including the Company's information systems and work flow related thereto, which also resulted in increases in accounts receivable. The Company intends to continue to address these issues throughout the remainder of 1999 and expects to add resources toward that end. In addition, the Company believes that its internal growth may have been detrimentally affected by certain inflexibilities in its pricing strategy and lack of responsiveness of that strategy to localized competitive conditions, resulting in lost volumes. The Company intends to continue to review its pricing strategy to enhance its competitiveness in future periods.

Operating Costs and Expenses (Exclusive of Depreciation and Amortization Shown Below)

Operating costs and expenses decreased \$44.0 million or 2.3% and \$168.5 million or 4.5% for the three and six months ended June 30, 1999, respectively, as compared to the corresponding periods of 1998. As a percentage of operating revenues, operating costs and expenses decreased from 58.8% to 56.0% for the three months ended June 30, 1998 and 1999, respectively, and decreased from 59.7% to 55.3% for the six months ended June 30, 1998 and 1999, respectively. The Company realized reductions in costs and improvements in operating efficiencies from its acquisition program and the WM Holdings Merger. Additionally, the Company realized improvements in NASW due to the increased utilization of internal disposal capacity, which is measured as a percentage of total disposal costs, from 56.4% to 66.5% for the three months ended June 30, 1998 and 1999, respectively and from 56.2% to 65.0% for the six months ended June 30, 1998 and 1999, respectively.

For the six months ended June 30, 1999, operating costs and expenses were favorably impacted by \$58 million in the three months ended March 31, 1999 attributable to downward revisions in remediation liabilities relating to certain of the Company's operations. Of this amount, \$23 million is attributable to revisions of reserves associated with the Company's Eastern Area of its NASW. The remaining \$35 million is attributable to revisions of remediation liabilities associated with the Company's international operations. As part of its on-going 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 reserve requirements may result in upward or downward adjustments to income from operations in any given period.

General and Administrative

General and administrative expenses decreased \$95.0 million or 25.0% and \$184.6 million or 25.3% for the three and six months ended June 30, 1999, respectively, as compared to the corresponding periods of 1998. As a percentage of operating revenues, the Company's general and administrative expense was 8.5% for both the three and six months ended June 30, 1999, respectively, as compared to 11.7% for the corresponding periods of 1998. The improvement in general and administrative expense as a percentage of revenues is

primarily due to the Company's integration of acquisitions and mergers of solid waste businesses without a proportionate increase of costs.

Depreciation and Amortization

Depreciation and amortization expense decreased \$3.0 million, or 0.8% and \$3.0 million or 0.4% for the three and six months ended June 30, 1999, respectively, as compared to the respective periods in 1998. As a percentage of operating revenues, depreciation and amortization expense was 11.5% and 11.6% for the three and six months ended June 30, 1999, respectively and 11.9% and 12.0% for the respective corresponding periods of 1998. The decrease in depreciation and amortization as a percentage of operating revenues is primarily due to the improved utilization of equipment through internal growth as well as the discontinuance of depreciation and amortization on non-revenue producing assets held for sale or abandoned in connection with the WM Holdings Merger and the Eastern Merger. Additionally, the Company's engineers have been studying the impact of accelerated biodegradation in its landfills due to leachate recirculation and related organic reactions. At certain of the Company's landfills that operate in geological locations conducive to accelerated biodegradation, landfill airspace rates have been adjusted to reflect longer estimated useful lives. This had the impact of reducing depreciation and amortization expense by approximately \$6.0 million in the first quarter of 1999 and approximately \$7.0 million in the second quarter of 1999 as compared to prior year periods. Offsetting these decreases is the increased utilization of internal disposal capacity which has the effect of increasing landfill amortization expense for every internalized ton disposed without an increase in net operating revenues.

Merger Costs and Unusual Items

In connection with the WM Holdings Merger and the Eastern Merger, the Company incurred significant merger costs and unusual items in the third and fourth quarters of 1998 as described in the Company's 1998 Annual Report on Form 10-K. Additionally, the Company recorded \$62.2 million and \$79.7 million of merger costs for the three and six months ended June 30, 1999, respectively, and expects to record approximately \$27.4 million throughout the remainder of 1999 for merger costs that are transitional in nature and not accruable until incurred or committed. The merger cost amount for the six months ended June 30, 1999 also includes cumulative offsetting adjustments totaling \$15.6 million primarily to conform accounting methods of the Company's ash monofil landfills to that of the Company's solid waste landfills.

The Company is in the process of settling its obligations under the WM Holdings defined benefit plan which was terminated as of December 31, 1998. The actual cash cost of settling the plan can not be recorded until paid and is currently estimated to be approximately \$215 million; an increase of approximately \$90.0 million over the previous estimate. This increase is due to the availability of updated census data and revised actuarial assumptions in the formulation of the estimates. Due to the necessary review and approval process, management expects the payout to certain categories of participants to occur in 1999 with the remaining participants expected to be paid in 2000. For the six months ended June 30, 1999, unusual items included \$6.5 million for past service costs related to the terminated plan. Also included in unusual items for the period is a provision of \$13.3 million related to the reassessment of ultimate losses for certain legal issues and on-going legal costs of the WM Holdings class action securities matter.

Cash payments of \$153.9 million and \$295.9 million were made by the Company during the three and six months ended June 30, 1999, respectively, related to merger costs recorded in 1998 for the WM Holdings Merger and the Eastern Merger. Future cash payments are expected to be approximately \$700.0 million related to the merger costs and unusual items recorded or to be recorded in connection with the WM Holdings Merger and Eastern Merger. The total estimated future cash payments of approximately \$700.0 million includes the aforementioned payout of the WM Holdings defined benefit plan.

Certain WM Holdings' employee stock option plans included change of control provisions that were activated as a result of the WM Holdings Merger whereby the option holder received certain put rights that require charges to earnings through the put periods. To the extent the market value of the Company's common stock exceeded \$54.34 per share, the Company was required to record additional charges to earnings until

July 16, 1999, at which time all put rights expired. The expense related to these stock option put rights would have had no impact on stockholders' equity, as the offset was a direct increase to additional paid in capital, since these put rights were satisfied by the issuance of common stock. As the market value of the Company's common stock was less than \$54.34 per share as of the date the put rights expired, there will be no charges to earnings in future periods related to the put rights.

Merger costs for the WM Holdings Merger and the Eastern Merger include estimates for anticipated losses related to the sales of assets pursuant to governmental orders. These anticipated losses have been estimated based on the Company's assessment of relevant facts and circumstances, including consideration of the various provisions of asset sale agreements. In certain instances, the asset sale agreements contain contingencies, the resolution of which are uncertain and may materially change the proceeds which the Company will ultimately receive. Accordingly, dependent upon actual future experience and the resolution of certain contingencies, the amount of losses ultimately recorded by the Company could materially differ from the amounts recorded by the Company. The Company is unable to determine the earnings impact of the Eastern Merger or any synergies that may ultimately be achieved. During the second quarter of 1999, the Company resolved an outstanding contingency regarding its sale of assets to Republic Services, Inc. which reduced the loss on that sale by approximately \$80 million. Offsetting this amount, the Company (i) consummated its sale of 51% of its high organic waste fuels blending and on-site industrial cleaning services which resulted in losses of approximately \$5 million greater than previously estimated; (ii) increased its anticipated losses by approximately \$14 million related to the assets required to be sold pursuant to the Eastern Merger; and (iii) identified other non-core operations for disposition that have a book value of approximately \$36 million greater than the estimated proceeds.

For the three and six months ended June 30, 1998, respectively, the Company recorded \$7.4 million and \$15.0 million of merger costs related to other pooling of interests transactions consummated during the periods.

Income from Continuing Operations Held for Sale (Net of Minority Interest)

The Company had operations that were previously classified as discontinued operations for accounting and financial reporting purposes that were subsequently reclassified to continuing operations as of December 31, 1997, as the dispositions were not completed within one year. The Company had divested of substantially all of such operations as of September 30, 1998.

Income from Operations

Income from operations was \$715.5 million and \$1,475.6 million for the three and six months ended June 30, 1999, respectively, as compared to \$569.2 million and \$1,021.5 million for the corresponding periods of 1998. As a percentage of operating revenues, income from operations, exclusive of merger costs, unusual items and loss from continuing operations held for sale (net of minority interest) increased from 17.6% to 23.9% for the three months ended June 30, 1998 and 1999, respectively and 16.6% to 24.6% for the six months ended June 30, 1998 and 1999, respectively. The increase in operating margins as a percentage of operating revenues is primarily due to internal growth, tuck-in acquisitions, merger synergies, productivity enhancements, increased waste internalization and downward revisions in remediation liabilities of \$58 million.

Other Income and Expenses

Other income and expenses consists of interest expense, interest income, other income and minority interest. Although the Company has experienced lower borrowing rates as compared to prior years, interest costs, which includes amounts capitalized, increased from 1998 to 1999 due to increases in the Company's outstanding indebtedness for each period. Capitalized interest was \$11.3 million and \$23.2 million for the three and six months ended June 30, 1999, respectively, and \$8.6 million and \$18.6 million for the corresponding periods of 1998. Included as other income for the six months ended June 30, 1998 is a gain of approximately \$38.0 million from the sale of a waste-to-energy facility in Hamm, Germany in January 1998.

During 1998, the Company acquired the outstanding minority interest in Wheelabrator Technologies, Inc., Waste Management International plc, and the operations in the United Kingdom which were 49% owned by Wessex Water Plc. As a result, the minority interest expense is lower in 1999 than the amount recognized in 1998.

Provision for Income Taxes

The Company recorded a provision for income taxes of \$227.6 million and \$475.6 million for the three and six months ended June 30, 1999, respectively, and \$184.4 million and \$351.0 million for the corresponding periods of 1998. The difference in federal income taxes at the federal statutory rate and the provision for income taxes for the six months ended June 30, 1999 is primarily due to state and local income taxes and non-deductible costs related to acquired intangibles.

Net Income

For the three and six months ended June 30, 1999, net income was \$318.3 million and \$665.0 million or \$0.50 and \$1.05 per share on a diluted basis, respectively, as compared to \$242.9 million and \$424.3 million or \$0.41 and \$0.72 per share on a diluted basis for the respective prior year periods. Excluding the net income effects of charges for merger costs, asset impairments and unusual items and income from continuing operations held for sale of \$82.0 million and \$99.5 million for the three and six months ended June 30, 1999, respectively, and \$2.4 million and \$12.4 million for the corresponding periods of 1998, diluted earnings per share were \$0.58 and \$1.14 for the three and six months ended June 30, 1999, respectively, and \$0.41 and \$0.75 for the corresponding periods of 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates in an industry that requires a high level of capital investment. The Company's capital requirements primarily stem from (i) its working capital needs for its ongoing operations, (ii) capital expenditures for cell construction and expansion of its disposal sites, as well as new trucks and equipment for its collection operations, and (iii) business acquisitions. The Company's strategy is to meet these capital needs first from internally generated funds and secondly from various financing sources available to the Company, including the incurrence of debt and the issuance of its common stock. It is further part of the Company's strategy to minimize working capital while maintaining available commitments under bank credit agreements to fund any capital needs in excess of internally generated cash flow. The Company had unused and available credit capacity under its domestic bank facilities of \$2.3 billion and \$1.6 billion at June 30, 1999 and August 11, 1999, respectively.

As of June 30, 1999, the Company had a working capital deficit of \$321.8 million (a ratio of current assets to current liabilities of 0.92:1) and a cash balance of \$81.0 million which compares to a working capital deficit of \$412.3 million (a current ratio of 0.90:1) and a cash balance of \$86.9 million as of December 31, 1998. For the six months ended June 30, 1999, net cash provided by operating activities was \$784.8 million, as compared to \$738.9 million for the comparable prior year period and net cash used by financing activities was \$42.0 million in 1999, as compared to amounts provided of \$2.0 billion in 1998. In the six months ended June 30, 1999, cash used to acquire businesses for \$644.5 million, capital expenditures of \$614.1 million and net debt reduction of approximately \$207.1 million were primarily financed by cash from operating activities and proceeds from sale of assets of \$502.7 million. In the six months ended June 30, 1998, capital expenditures of \$735.8 million and acquisitions of businesses and outstanding minority interests of \$2.3 billion were primarily financed through net cash from operations, proceeds from sale of assets of \$455.3 million and net cash from financing activities.

On May 21, 1999, the Company completed a private placement of \$1.15 billion of its senior notes, including \$200 million principal amount of 6% senior notes due 2001 at an issue price of 99.966, \$500 million principal amount of 6 7/8% senior notes due 2009 for an issue price of 99.674, \$250 million principal amount of 7 3/8% senior notes due 2029 for an issue price of 99.595 and an additional \$200 million principal amount of 6 1/2% senior notes due 2004 for an issue price of 99.721. The notes were not registered under the Securities Act

of 1933, as amended (the "Securities Act"), and may only be resold pursuant to Rule 144A of the Securities Act.

Since the WM Holdings Merger was consummated in July 1998, the Company has undergone a massive conversion of its computer and financial reporting systems as part of the integration of the two companies. Moreover, the Company adopted a decentralized billing system for the merged entity (as opposed to the centralized system employed by WM Holdings prior to the WM Holdings Merger). The billing system conversion was substantially completed in May 1999. As a result of this system conversion, coupled with the significant merger integration process, the Company has seen its accounts receivable grow and its days sales outstanding ("DSOs") expand from 58 days at June 30, 1998 to 65 days at June 30, 1999. In addition, during the first six months of 1999 the Company paid approximately \$295.9 million for costs directly or indirectly related to the WM Holdings Merger and Eastern Merger, the majority of which were accrued as liabilities as of December 31, 1998. Consequently, the Company's net cash provided by operating activities for the first half of 1999, was significantly impacted by these, and to a lesser extent, other working capital issues. Although there can be no assurance of improvement, the Company expects its DSOs to improve in the second half of 1999 and is making a concerted effort to enhance the receivable collection process. The Company expects to fund additional merger, pension and litigation obligations of approximately \$700 million over the next 12 to 15 months.

In the second quarter of 1999, the Company entered into an agreement to purchase all of the Canadian solid waste assets of Allied Waste Industries, Inc. acquired upon its acquisition of Browning-Ferris Industries, Inc. The purchase price for these assets is approximately \$501 million in cash. This acquisition is contingent on customary conditions; however, it is expected to be consummated at or near the end of the third quarter of 1999.

During the first six months of 1999, the Company generated free cash flow from operations ("FCF") of \$170.7 million. The Company defines FCF as net cash provided by operating activities less capital expenditures. Through cash payments and the conversion of approximately \$261 million of subordinated debt to equity, the Company reduced its total indebtedness for borrowed money during the first half of 1999 by approximately \$396 million to about \$11.3 billion at June 30, 1999. Regardless, in response to the Company's current quarter results and revision of its future earnings estimates, long term debt and commercial paper ratings were lowered by Moody's and Standard & Poor's credit rating agencies. The ratings continue to be under review and further ratings deterioration may result. An objective of the Company's strategic initiative is to maintain its long-term investment grade characteristics. There can be no assurance that such characteristics can be maintained. In light of the decline in credit ratings, the Company has ceased the issuance of commercial paper at this time. The Company expects to use existing bank credit facilities to redeem outstanding commercial paper and to meet future liquidity requirements. The Company expects to incur higher borrowing costs for the foreseeable future as a result of these actions. The Company believes it has sufficient credit capacity and cash flow generating capability to provide for its expected obligations for the remainder of 1999 and in the future. However, the Company is analyzing certain liquidity financing arrangements and may decide to enter into one or more financing arrangements to provide added liquidity to the Company. However, there can be no assurance that the Company would be successful in obtaining such additional capital on acceptable terms. The Company is consulting with its financial advisors to determine the optimal approach for structuring its credit facilities in light of its announced strategic initiatives.

RECENT DEVELOPMENTS

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three-month period ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three-month period ended March 31, 1999 may have included certain non-recurring pretax income items. Between July 8, 1999 and August 4, 1999, several lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between

June 10, 1998 and August 2, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock at prices known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the respective courts deem proper.

In addition, two of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. These lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and in the United States District Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged stock sales during the three-month period ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan who allegedly purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the Plan bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These Plan participants have indicated in the letter that, absent action by the Plan, they intend to sue the Company and the directors and officers on behalf of the Plan and its participants.

In addition, the United States Securities and Exchange Commission ("SEC") has notified the Company of an informal inquiry into the period ended June 30, 1999, as well as certain sales of the Company's common stock that preceded the Company's July 6, 1999 earnings announcement.

The New York Stock Exchange has notified the Company that its Market Trading Analysis Department is reviewing transactions in the stock of the Company prior to the July 6, 1999 earnings forecast announcement.

The Company is conducting a thorough investigation of each of the allegations that have been made in connection with the Company's second quarter 1999 earnings communications. As part of this investigation, the Company's Board of Directors has authorized a review of the allegations that have been made against certain of the Company's officers and directors. Roderick M. Hills, the former chairman of the SEC and chairman of the Company's audit committee, is directing the review.

The Company has received a Civil Investigative Demand ("CID") from the Antitrust Division of the United States Department of Justice inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the Department of Justice with certain documents to assist it in its inquiry.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purports to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the WM Holdings defined benefit pension plan. On behalf of the purported class, the plaintiff seeks compensatory and punitive damages, costs, restitution with interest, and such other relief as the Court deems proper.

It is not possible at this time to predict the impact that the above lawsuits may have on WM Holdings or the Company, nor is it possible to predict whether any other suits or claims may arise out of these matters in the future. However, it is reasonably possible that the outcome of any present or future litigation may have a

material adverse impact on their respective financial conditions or results of operations in one or more future periods. The Company and WM Holdings intend to defend themselves vigorously in all the above matters.

An Executive Committee of the Board of Directors of the Company has been formed consisting of Ralph V. Whitworth, Roderick M. Hills and Jerome P. York. The Board of Directors has appointed Mr. Whitworth, a managing member of Relational Investors LLC, as Chairman of the Executive Committee.

Rodney R. Proto has relinquished his position as the Company's President and Chief Operating Officer and as a member of the Board of Directors. Earl E. DeFrates has resigned as Chief Financial Officer but will remain with the Company as Executive Vice President to assist senior management. Gregory T. Sangalis has resigned as the Company's General Counsel.

The Company's Board of Directors has appointed Ralph V. Whitworth its Chairman. The Company's former Chairman, John E. Drury, will remain a member of the Board of Directors.

The Company has initiated a search for a new Chief Executive Officer, Chief Financial Officer and General Counsel. Pending the conclusion of this search, the Company's Board of Directors has appointed Robert S. Miller as the Company's Chief Executive Officer and President. Mr. Miller served as Chairman of the Board of the Company from July 1998 until May 1999 and was a director of WM Holdings from October 1997 to July 1998. Mr. Miller serves as Vice Chairman of Morrison Knudsen Corporation, an engineering and construction firm. He also served as Chief Executive Officer of Federal-Mogul Corporation from September until November 1996 and as Chairman of Morrison Knudsen Corporation from April 1995 until September 1996. In addition, since 1993 he has served as Vice President and Treasurer of Moore Mill and Lumber, a privately held forest product firm, and from 1992 to 1993, he served as Senior Partner of James D. Wolfensohn, Inc., an investment banking firm. From 1979 to 1992, Mr. Miller was with Chrysler Corporation ("Chrysler"), an automobile and truck manufacturing firm, rising to become Vice-Chairman of the Board after serving as Chrysler's Chief Financial Officer. Mr. Miller is a director of Federal-Mogul Corporation, Morrison Knudsen Corporation, Pope & Talbot, Inc., and Symantec Corporation.

The Board of Directors has initiated a strategic initiative aimed at increasing shareholder value. The Company has engaged Chase Securities, Inc. and Donaldson, Lufkin & Jenrette Securities Corporation as financial advisors to assist the Company in this matter. The plan calls for disposition of some or all of the Company's International assets, a substantial majority of the Company's non-core assets, and certain non-strategic North American solid waste assets that account for 10% of the Company's operating revenues in that sector. The Company intends immediately to initiate the disposition of these assets, and plans to substantially complete these asset sales in the next 12 months, although there can be no assurance that these dispositions will be completed in the time frame contemplated. The Company expects to use the proceeds of these asset dispositions as they are realized to repay debt, repurchase shares and pursue tuck-in acquisitions.

SEASONALITY AND INFLATION

The Company's operating revenues tend to be somewhat lower in the winter months. This is generally reflected in the Company's first quarter and fourth quarter operating results. This is primarily attributable to the fact that (i) the volume of waste relating to construction and demolition activities tends to increase in the spring and summer months and (ii) the volume of residential waste in certain regions where the Company operates tends to decrease during the winter months.

The Company believes that inflation and changing prices have not had, and are not expected to have, any material adverse effect on the results of operations in the near future.

YEAR 2000 DATE CONVERSION

The Company is currently working to resolve the potential impact of the Year 2000 on the processing of date-sensitive data by the Company's computerized information systems. In 1997, the Company began to modify its North American computer information systems to ensure proper processing of transactions relating to the Year 2000 and beyond and completed the majority of the required modifications to its critical business systems in use in North America during 1998. The Company expects to have all of such modifications completed during the third quarter of 1999. For WM International, systems supplied by an outside vendor are used for critical operations. That vendor has supplied the Company with Year 2000 compliant versions, deployment of which is largely completed. The Company expects that the systems used by WM International will be fully Year 2000 compliant during the third quarter of 1999. The amounts charged to expense during the first and second quarters of 1999 related to the Year 2000 compliance modifications have not been material and any additional charges in 1999 are not expected to be material to the Company's financial position, results of operations or cash flows.

In addition to its critical business systems, the Company has addressed the issue of the Year 2000 impact on certain of its embedded technologies. Incinerators and monitoring wells both have computer chips embedded within them, and the Company is upgrading those chips to avoid any malfunctioning of the chips as a result of the Year 2000. The Company expects such upgrades to be complete by the end of 1999. The Company is also taking steps to resolve Year 2000 compliance issues that may be created by customers, suppliers and financial institutions with whom the Company does business. However, there can be no guarantee that the systems of other entities will be converted timely.

The Company is in the process of establishing a worst case scenario and written contingency plan to address any issues that could arise should the Company or if any of its suppliers or customers not be prepared to accommodate Year 2000 issues timely. The Company believes that in an emergency it could revert to the use of manual systems that do not rely on computers and could perform the minimum functions required to provide information reporting to maintain satisfactory control of the business. Should the Company have to utilize manual systems, it is uncertain that it could maintain the same level of operations, and this could have a material adverse impact on the business. The Company intends to maintain constant supervision on this situation and will develop such additional contingency plans as are required by the changing environment.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivatives used for hedging purposes. SFAS No. 133 requires that entities recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure these instruments as fair value. SFAS No. 133 is effective for the Company in its first fiscal quarter in 2001. Management is currently assessing the impact that the adoption of SFAS No. 133 will have on the Company's consolidated financial statements.

PART II.

ITEM 1. LEGAL PROCEEDINGS.

In addition to previously disclosed litigation against WM Holdings, there are several other actions and claims that arise out of the same set of facts as those giving rise to the purported securities class actions concerning statements made in 1996 and 1997 about WM Holdings financial condition and results of operations. Such actions and claims have been brought by business owners who received WM Holdings common stock in the sales of their businesses to WM Holdings. These actions and claims, one of which purports to be class action, allege, among other things, breach of warranty or breach of contract based on WM Holdings' restatement of earnings in February 1998. In April 1999, courts having jurisdiction over two such actions, including the purported class action, granted summary judgement against WM Holdings and in favor of the individual plaintiffs who brought the respective claims on the issue of breach of contract. The extent of damages, if any, in either action has not yet been determined.

In December 1998, the Company announced an agreement to settle the consolidated action against all defendants and the establishment of a settlement fund of \$220 million for the class of open market purchasers of WM Holdings securities between November 3, 1994, and February 24, 1998. The settlement agreement with the plaintiffs is still subject to the requirements of, notice to the class and final approval by the Court after a hearing. There can be no assurances that the Court will find the settlement to be fair to the class. Also, because otherwise eligible members of the class may opt out of the lawsuit, there can be no assurances that WM Holdings will not be a party to additional lawsuits or claims brought by open market purchasers of the Company's securities.

In June 1999, the Company was notified that the EPA is conducting a civil investigation of alleged CFC disposal violations by Waste Management of Massachusetts, Inc. ("WMMA") to determine whether further enforcement measures are warranted. The activities giving rise to the allegations of CFC disposal violations appear to have occurred prior to July 30, 1998. On July 29, 1998, the EPA inspected WMMA's operations, notified the Company of the alleged violations and issued an Administrative Order in January 1999 requiring WMMA to comply with the CFC regulations. WMMA is cooperating with the investigation and the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

The Company has been advised by the United States Department of Justice that Laurel Ridge Landfill, Inc., a wholly owned subsidiary of the Company as a result of the Company's acquisition of United Waste Systems, Inc. ("United") in August 1997, allegedly committed certain violations of the Clean Water Act at the Laurel Ridge Landfill in Kentucky. The alleged activities occurred during a period prior to the Company's acquisition of United. In May 1999, the Company pleaded guilty to a criminal misdemeanor and, subject to court approval, agreed to pay a fine and in kind services. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

In March 1999, the Company was notified that All Waste Systems, Inc. ("All Waste") and two other indirect subsidiaries acquired in the Eastern Merger, as well as a current employee of the Company, were suspended from future contracting with any agency in the executive branch of the United States Government pending proceedings. The suspension and potential debarment are based on a September 1997 conviction of All Waste of mail fraud and other activities that occurred prior to the ownership of the entities by Eastern. In May 1999, the United States Government removed the three entities from the suspension and proposed debarment list due to a lack of nexus between the activities in question and the current ownership of the Company.

In February 1999, a San Bernardino County, California grand jury returned an amended felony indictment against the Company, certain of its subsidiaries and their current or former employees, and a County employee. The proceeding is based on events that allegedly occurred prior to the WM Holdings Merger in connection with a WM Holdings landfill development project. The indictment includes allegations that certain of the defendants engaged in conduct involving fraud, wiretapping, theft of a trade secret and

manipulation of computer data, and that they engaged in a conspiracy to do so. If convicted, the most serious of the available sanctions against the corporate defendants would include substantial fines and forfeitures. The Company believes that meritorious defenses exist to each of the allegations, and the defendants are vigorously contesting them. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three-month period ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three-month period ended March 31, 1999 may have included certain non-recurring pretax income items. Between July 8, 1999 and August 4, 1999, several lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 2, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock at prices known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the respective courts deem proper.

In addition, two of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. These lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and in the United States District Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged stock sales during the three-month period ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan who purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the Plan bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These Plan participants have indicated in the letter that, absent action by the Plan, they intend to sue the Company and the directors and officers on behalf of the Plan and its participants.

In addition, the SEC has notified the Company of an informal inquiry into the period ended June 30, 1999, as well as certain sales of the Company's common stock that preceded the Company's July 6, 1999 earnings announcement.

The New York Stock Exchange has notified the Company that its Market Trading Analysis Department is reviewing transactions in the stock of the Company prior to the July 6, 1999 earnings forecast announcement.

The Company is conducting a thorough investigation of each of the allegations that have been made in connection with the Company's second quarter 1999 earnings communications. As part of this investigation, the Company's Board of Directors has authorized a review of the allegations that have been made against certain of the Company's officers and directors. Roderick M. Hills, the former chairman of the SEC and chairman of the Company's audit committee, is directing the review.

The Company has received a CID from the Antitrust Division of the United States Department of Justice inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in

monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the Department of Justice with certain documents to assist it in its inquiry.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purports to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the WM Holdings defined benefit pension plan. On behalf of the purported class, the plaintiff seeks compensatory and punitive damages, costs, restitution with interest, and such other relief as the Court deems proper.

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

In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the foreign, federal, state, and local level, including, in certain instances, proceedings instituted by citizens or local governmental authorities seeking to overturn governmental action where governmental officials or agencies are named as defendants together with the Company or one or more of its subsidiaries, or both. In the majority of the situations where proceedings are commenced by governmental authorities, the matters involved related to alleged technical violations of licenses or permits pursuant to which the Company operates or is seeking to operate or laws or regulations to which its operations are subject or are the result of different interpretations of applicable requirements. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of June 30, 1999, there were four proceedings involving Company subsidiaries where the sanctions involved could potentially exceed \$100,000. The Company believes that any such fines or penalties will not have a material adverse effect on its results of operations or financial condition. However, the outcome of any particular proceeding cannot be predicted with certainty, and the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time.

The Company and certain of its subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of their business, some of which are addressed elsewhere in this report or in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. While the outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty, the Company believes that these matters will not have a material adverse effect on its consolidated financial statements.

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

At the Company's Annual Meeting of Stockholders held on May 14, 1999, a proposal to elect the nominees listed in the following table as Class I directors of the Company was submitted to a vote of the Company's stockholders. The following table also shows the results of voting as to each nominee:

NOMINEE -----	VOTES FOR -----	VOTES WITHHELD -----
Pastora San Juan Cafferty.....	517,586,278	2,324,725
Ralph F. Cox.....	517,604,832	2,306,172
Richard J. Heckmann.....	517,620,222	2,290,782
Steven G. Rothmeier.....	517,594,157	2,316,847

At the same meeting, a proposal to ratify the appointment of Arthur Andersen LLP as the Company's independent auditors for the fiscal year ending December 31, 1999 was submitted to a vote of the Company's stockholders. The proposal was adopted by the stockholders, receiving 518,353,020 votes for, 648,541 votes against and 909,443 votes withheld.

ITEM 5. OTHER INFORMATION.

In the second quarter of 1999, the Company entered into an agreement to purchase all of the Canadian solid waste assets of Allied Waste Industries, Inc. acquired upon its acquisition of Browning-Ferris Industries, Inc. The purchase price for these assets is approximately \$501 million in cash. This acquisition is contingent on customary conditions; however, it is expected to be consummated at or near the end of the third quarter of 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

EXHIBIT NO. *	DESCRIPTION
-----	-----
3	-- Restated Bylaws, as amended.
12	-- Computation of Ratio of Earnings to Fixed Charges.
27	-- Financial Data Schedule.
27.1	-- Restated Financial Data Schedule.

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

(b) Reports on Form 8-K:

During the second quarter of 1999, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized to sign in the dual responsibility on behalf of the Registrant and as Chief Accounting Officer.

WASTE MANAGEMENT, INC.

By: /s/ BRUCE E. SNYDER

Bruce E. Snyder
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: August 16, 1999

INDEX TO EXHIBITS

EXHIBIT NUMBER*	DESCRIPTION
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12	-- Computation of Ratio of Earnings to Fixed Charges.
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27.1	-- Restated Financial Data Schedule.

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

BY-LAWS
OF
WASTE MANAGEMENT, INC.
(f/k/a USA WASTE SERVICES, INC.)
AS OF MAY 14, 1999

ARTICLE I

OFFICES

SECTION 1.1. Registered Office. The registered office of the Corporation required by the General Corporation Law of the State of Delaware to be maintained in the State of Delaware shall be the registered office named in the original Certificate of Incorporation of the Corporation, or such other office as may be designated from time to time by the Board of Directors in the manner provided by law. Should the Corporation maintain a principal office or place of business within the State of Delaware, such registered office need not be identical to such principal office or place of business of the Corporation.

SECTION 1.2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 2.1. Place of Meetings. All meetings of the stockholders shall be held at the principal office of the Corporation, or at such other place either within or without the State of Delaware and at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice or waivers of notice of the meeting.

SECTION 2.2. Voting List. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order for each class of stock, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be opened to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice, or if not so specified, at the place where the

meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.3. Annual Meetings. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, within or without the State of Delaware, on such date, and at such time as the Board of Directors shall fix each year and set forth in the notice of the meeting, which date shall be within 13 months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

SECTION 2.4. Special Meeting. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chairman of the Board (if any), by the Chief Executive Officer, or by written order of a majority of the directors, but such special meetings may not be called by any other person or persons. The Chairman, Chief Executive Officer, or directors so calling any such meeting shall fix the date and time of, and the place (either within or without the State of Delaware) for, the meeting.

SECTION 2.5. Notice of Meeting. Written notice of the annual, and each special meeting of stockholders, stating the place, date and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote thereat, not less than ten nor more than 60 days before the meeting. Such notice may be delivered either personally or by mail. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

SECTION 2.6. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Notwithstanding the other provisions of the Certificate of Incorporation or these by-laws, the chairman of the meeting or the holders of a majority of the shares of such stock, present in person or represented by proxy, although not constituting a quorum, shall have power to adjourn, postpone, or recess the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned, postponed, or recessed meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 2.7. Voting. When a quorum is present at any meeting of the stockholders, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the statutes, of the Certificate of Incorporation or of these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Where a separate vote by class is required, the affirmative vote of the majority of shares of such class present in person or represented by proxy at the meeting shall be the act of such class. Every stockholder having the right to vote at a meeting of stockholders or to express consent or dissent to a corporate action in writing without a meeting shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder, bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation, or such other officer as the Board of Directors may from time to time determine by resolution, before, or at the time of, the meeting.

All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the secretary of the meeting who shall decide all questions touching upon the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes, unless an inspector or inspectors shall have been appointed by the chairman of the meeting, in which event such inspector or inspectors shall decide all such questions. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power. If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting or giving consents thereby conferred, or if only one be present, then such powers may be exercised by that one, or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the same portion of the shares as he is of the proxies representing such shares.

SECTION 2.8. Voting of Stock of Certain Holders; Elections: Inspectors. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the by-laws of such corporation may prescribe, or in the absence of such provision, as the Board of Directors of such corporation may determine. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(a) If only one votes, his act binds all;

(b) If more than one vote, the act of the majority so voting binds all;

(c) If more than one vote, but the vote is evenly split on any particular matter, each fraction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person appointed by the Court. If the instrument so filed shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of this subsection shall be a majority or even-split in interest.

All voting of stockholders shall be taken by written ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. At any meeting at which a vote is taken by ballots, the chairman of the meeting may appoint one or more inspectors, each of whom shall subscribe an oath or affirmation to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of his ability. Such inspector shall receive the ballots, count the votes and make and sign a certificate of the result thereof. The chairman of the meeting may appoint any person to serve as inspector, except no candidate for the office of director shall be appointed as inspector.

Unless otherwise provided in the Certificate of Incorporation, cumulative voting for the election of directors shall be prohibited.

SECTION 2.9. Conduct of Meeting. The meetings of the stockholders shall be presided over by the Chairman of the Board (if any), or if he is not present, by the Vice Chairman of the Board (if any, but if there is more than one, the Vice Chairman who is senior in terms of time as such), or if neither the Chairman of the Board (if any) nor the Vice Chairman of the Board (if any) is present, by the President, or if neither the Chairman of the Board (if any), the Vice Chairman of the Board (if any) nor President is present, by a chairman elected at the meeting. The Secretary of the Corporation, if present, shall act as secretary of such meetings, or if he is not present, an Assistant Secretary shall so act; if neither the Secretary nor an Assistant Secretary is present, then a secretary shall be appointed by the chairman of the meeting. The chairman of any

meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order. Unless the chairman of the meeting of stockholders shall otherwise determine, the order of business shall be as follows:

- (a) Calling of meeting to order.
- (b) Election of a chairman and the appointment of a secretary if necessary.
- (c) Presentation of proof of the due calling of the meeting.
- (d) Presentation and examination of proxies and determination of a quorum.
- (e) Reading and settlement of the minutes of the previous meeting.
- (f) Reports of officers and committees.
- (g) The election of directors if an annual meeting, or a meeting called for that purpose.
- (h) Unfinished business.
- (i) New business.
- (j) Adjournment.

SECTION 2.10. Treasury Stock. The Corporation shall not vote, directly or indirectly, shares of its own stock owned by it; and such shares shall not be counted in determining the total number of outstanding shares.

SECTION 2.11. Fixing Record Date. The Board of Directors may fix in advance a date, not exceeding 60 days preceding the date of any meeting of stockholders or any adjournment thereof, or the date for payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change, or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining express consent to corporate action in writing without a meeting, as a record date for the determination of the stockholders entitled to notice of or to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, any such meeting and any adjournment thereof, or to receive payment of such dividends or distribution, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record dated

fixed as aforesaid. With respect to a meeting of stockholders, the record date shall not be less than ten days before the date of such meeting.

If the Board of Directors does not fix a record date for any meeting of the stockholders, the record date for determining stockholders entitled to notice of or to vote at such meeting shall be at the close of business on the day next preceding the day on which notice is given, or, if in accordance with Section 5.2 of these by-laws notice is waived, at the close of business on the day next preceding the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 2.12. Stockholder Proposals. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual or special meeting business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Chairman of the Board, the President, or the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Chairman of the Board, the President, or the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder.

No proposal by a stockholder shall be presented at an annual or special meeting of stockholders unless such stockholder shall provide the Board of Directors or the Secretary of the Corporation with timely written notice of intention to present a proposal for action at the forthcoming meeting of stockholders, which notice shall include (a) the name and address of such stockholder, (b) the number of voting securities he or she holds of record and which he or she holds beneficially, (c) the text of the proposal to be presented at the meeting, (d) a statement in support of the proposal, and (e) any material interest of the stockholder in such proposal. To be timely, a stockholder's notice with respect to an annual meeting of stockholders must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 120 days nor more than 150 days in advance of the date the Corporation's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that if no annual meeting was held the previous year or the date of the annual meeting has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received at least 80 days prior to the date the Corporation intends to distribute its proxy statement with respect to such meeting. To be timely, a stockholder's notice with respect to a special meeting must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifth (5th) day following the day on which such notice of the date of

the special meeting was mailed or such public disclosure was made. Any stockholder may make any other proposal at an annual or special meeting of stockholders and the same may be discussed and considered, but unless stated in writing and filed with the Board of Directors or the Secretary prior to the date set forth above, no action with respect to such proposal shall be taken at such meeting and such proposal shall be laid over for action at an adjourned, special, or annual meeting of the stockholders taking place no earlier than 120 days after such meeting.

This provision shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors, and committees; but in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as provided in this Section 2.12. Notwithstanding anything in the by-laws to the contrary, no business shall be conducted at any annual or special meeting except in accordance with the procedures set forth in this Section 2.12. The chairman of the annual meeting or a special meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.12, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding any other provision of these by-laws, the Corporation shall be under no obligation to include any stockholder proposal in its proxy statement materials or otherwise present any such proposal to stockholders at a special or annual meeting of stockholders if the Board of Directors reasonably believes the proponents thereof have not complied with Sections 13 and 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, and the Corporation shall not be required to include in its proxy statement material to stockholders any stockholder proposal not required to be included in its proxy material to stockholders in accordance with such Act, rules, or regulations.

SECTION 2.13. Nomination of Directors. Only persons who are nominated in accordance with the procedures of this Section 2.13 shall be eligible for election as directors. Subject to the rights of holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or by any stockholder entitled to vote in the election of directors generally who complies with the notice procedures set forth in this Section 2.13. Any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as a director at a meeting only if timely written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by U.S. mail, first class postage prepaid, return receipt requested, to the Secretary of the Corporation.

To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 120 days nor more than 150 days in advance of the date the Corporation's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that if no annual

meeting was held the previous year or the date of the annual meeting has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received at least 80 days prior to the date the Corporation intends to distribute its proxy statement with respect to such meeting. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination, (b) the name, age, business address, and home address of the person or persons to be nominated; (c) the principal occupation of the person or persons nominated; (d) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and intends to appear at the meeting to nominate the person or persons specified in the notice; (e) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (f) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (g) the consent of each nominee to serve as a director of the Corporation if so elected. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.13. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the by-laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

BOARD OF DIRECTORS

SECTION 3.1. Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

SECTION 3.2. Number, Election and Term. Except as otherwise provided in the Certificate of Incorporation relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances, the number of directors of the Corporation shall initially be the number specified in the Certificate of Incorporation, and subject to the following sentence, such number may be

increased or decreased by a resolution duly adopted by the Board of Directors. Unless approved by at least two-thirds of the incumbent directors, the number of directors which shall constitute the whole Board of Directors shall be no fewer than three and no more than nine. Unless otherwise provided in the Certificate of Incorporation, directors need not be residents of Delaware or stockholders of the Corporation.

Commencing with the election of directors at the 1995 annual meeting of stockholders, the directors, other than those who may be elected by the holders of any class or series of Preferred Stock, voting separately by class or series, shall be classified, with respect to the time for which they severally hold office, into three classes, Class I, Class II and Class III, which shall be as nearly equal in number as possible, as shall be provided in a resolution duly adopted by the Board of Directors. Each initial director in Class I shall hold office for a term expiring at the 1996 annual meeting of stockholders; each initial director of Class II shall hold office initially for a term expiring at the 1997 annual meeting of stockholders; and each initial director of Class III shall hold office for a term expiring at the 1998 annual meeting of stockholders. Notwithstanding the foregoing provision of this Article, each director shall serve until his successor is duly elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders following the 1995 annual meeting, the successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors have been duly elected and qualified or until their earlier death, resignation or removal.

SECTION 3.3. Vacancies, Additional Directors and Removal From Office. Except as otherwise provided pursuant to the provisions of the Certificate of Incorporation relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, any director or directors may be removed from office at any time, with or without cause but only by the affirmative vote, at any regular meeting or special meeting (as the case may be) of the Board of Directors or of the stockholders, of not less than two-thirds of the incumbent members of the Board of Directors (not taking into account the directors being removed) or two-thirds of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposal was contained in the notice of such meeting.

In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships resulting from such increase or decrease shall be appointed or determined by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equally as possible. Vacancies in the Board of Directors, however caused, and newly-created directorships shall be filled solely by a majority vote of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of the class to which the director has been chose expires and when the director's successor is elected and qualified, subject, however, to prior death, resignation, retirement, disqualification or removal from office. No decrease in the number

of directors constituting the Board of Directors shall shorten the term of any incumbent director.

SECTION 3.4. Regular Meeting. A regular meeting of the Board of Directors shall be held each year, without notice other than this by-law, at the place of, and immediately following, the annual meeting of stockholders if a quorum is present; and other regular meetings of the Board of Directors shall be held each year, at such time and place as the Board of Directors may provide, by resolution, either within or without the State of Delaware, without notice other than such resolution.

SECTION 3.5. Special Meeting. A special meeting of the Board of Directors may be called by the Chairman of the Board (if any) or by the Chief Executive Officer and shall be called by the Secretary on the written request of any two directors. The Chairman or Chief Executive Officer so calling, or the directors so requesting, any such meeting shall fix the time and place, either within or without the State of Delaware, of holding such meeting.

SECTION 3.6. Notice of Special Meeting. Personal written, telegraphic, cable or wireless notice of special meetings of the Board of Directors shall be given to each director at least 24 hours prior to the time of such meeting. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 3.7. Place of Meetings; Order of Business. The directors may hold their meetings and may have an office and keep the books of the Corporation, except as otherwise provided by law, in such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine by resolution. The Chairman of the Board shall preside at all meetings of the Board of Directors. In the absence of the Chairman of the Board, a Chairman shall be elected from the directors present. The Secretary of the Corporation shall act as Secretary of all meetings of the directors; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting. At all meetings of the Board of Directors business shall be transacted in such order as shall from time to time be determined by the Chairman of the Board, or in his absence by the director elected as chairman of the meeting.

SECTION 3.8. Quorum and Participation. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these by-laws. Members of the Board of Directors, may participate in a meeting of the Board of Directors or such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person and attendance at such meeting, except where a person participates in the

meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3.9. Presumption of Assent. A director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.10. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof as provided in Article IV of these by-laws, may be taken without a meeting, if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee. Such consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any document or instrument filed with the Secretary of State of Delaware.

SECTION 3.11. Compensation. Unless otherwise restricted by the Certificate of Incorporation, the Board of Directors shall have the authority to fix the compensation of directors. No provision of these by-laws shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 3.12. Approval or Ratification of Acts or Contracts by Stockholders. The Board of Directors in its discretion may submit any act or contract for approval or ratification at any annual meeting of the stockholders, or at any special meeting of the stockholders called for the purpose of considering any such act or contract, and any act or contract that shall be approved or be ratified by the vote of the stockholders holding a majority of the issued and outstanding shares of stock of the Corporation entitled to vote and present in person or by proxy at such meeting (provided that a quorum is present), shall be as valid and as binding upon the Corporation and upon all the stockholders as if it has been approved or ratified by every stockholder of the Corporation. In addition, any such act or contract may be approved or ratified by the written consent of stockholders holding a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote and such consent shall be as valid and as binding upon the Corporation and upon all the stockholders as if it had been approved or ratified by every stockholder of the Corporation.

ARTICLE IV

COMMITTEES OF DIRECTORS

SECTION 4.1. Designation, Powers and Name. The Board of Directors shall designate a Nominating and Governance Committee, a Compensation Committee, and an Audit Committee and may, by resolution passed by a majority of the whole Board, designate one or more other committees, each such committee to consist of one or more of the directors of the Corporation. Any such designated committee shall have and may exercise such of the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as may be provided in these by-laws or such resolution. Any such designated committee may authorize the seal of the Corporation to be affixed to all papers which may require it. No such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided by statute, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the by-laws of the Corporation; and, unless the resolution, by-laws, or Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Such committee or committees shall have such name or names and such limitations of authority as may be determined from time to time by the by-laws or the resolution adopted by the Board of Directors.

SECTION 4.2. Nominating and Governance Committee. The Nominating and Governance Committee of the Board of Directors (the "Nominating and Governance Committee") shall consist of not less than three directors, all of whom shall be "non-employee" (as hereinafter defined) directors of the Corporation, to be designated by the Board of Directors. The term "non-employee" director, as used in these by-laws, shall mean a director of the Corporation who is independent of management and free from any relationship with the Corporation or otherwise that, in the opinion of

the Board of Directors, would interfere in the exercise of independent judgment as a director, and is not an officer, employee, agent or affiliate (except as a director) of the Corporation. It is further presumed that no former officer or employee of the Corporation may qualify as a non-employee director; provided, however, that this presumption may be rebutted by the affirmative determination by the Board of Directors. The Nominating and Governance Committee shall have and may exercise all of the powers of the Board of Directors, except as may otherwise be prohibited by law or herein, with respect to (i) evaluating and recommending director candidates to the Board of Directors, (ii) assessing Board of Directors performance not less than every three years, (iii) reviewing individual director performance as issues arise and (iv) periodically reviewing the Corporation's corporate governance profile.

SECTION 4.3. Compensation Committee. The Compensation Committee of the Board of Directors (the "Compensation Committee") shall consist of not less than three directors, all of whom shall be non-employee directors of the Corporation, to be designated by the Board of Directors. The Compensation Committee shall have and may exercise all of the powers of the Board of Directors during the period between meetings of the Board of Directors, except as may be prohibited by law, with respect to (i) studying, recommending, adopting, implementing, administering, determining, and authorizing the amount, terms, and conditions of payment of any and all forms of compensation for the Corporation's directors, officers, employees, and agents and (ii) approving and administering any loan to, guarantee of any obligation of, or other assistance to any officer or other employee of the Corporation or any of its subsidiaries, including any officer or employee who is a director of the Corporation or any of its subsidiaries.

SECTION 4.4. Audit Committee. The Audit Committee of the Board of Directors (the "Audit Committee") shall consist of not less than two directors, all of whom shall be non-employee directors of the Corporation, to be designated by the Board of Directors. The Audit Committee shall have and may exercise all of the powers of the Board of Directors, except as may be prohibited by law, with respect to (i) the selection and recommendation for employment by the Corporation, subject to approval by the Board of Directors and the stockholders, of a firm of certified public accountants to audit the books and accounts of the Corporation and its subsidiaries for the fiscal year in which they are appointed and who shall report to the Audit Committee, (ii) reviewing the audit and other work and reports submitted by the certified public accountants, conferring with the auditors, and reporting thereon to the Board of Directors with such recommendations as the Audit Committee may deem appropriate, (iii) reviewing annually the maintenance and safekeeping of the Corporation's books and records, (iv) meeting with the Corporation's principal financial and accounting officers, the certified public accountants and auditors, and other officers and employees of the Corporation as the Audit Committee shall deem necessary in order to determine the adequacy of the Corporation's accounting principles and operating policies, controls, and practices, its public financial reporting policies and practices, and the results of the Corporation's annual audit, and (v) retaining such professional assistance, including outside counsel, auditors, and others, as the Audit Committee shall deem necessary or advisable, in connection with the exercise of its powers on such terms as the Audit Committee shall deem necessary or advisable to protect the interests of the stockholders of the Corporation.

SECTION 4.5. Procedure; Meetings; Quorum. Any committee designated pursuant to Sections 4.1, 4.2, 4.3, or 4.4 shall choose its own chairman, shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures, and shall meet at such times and at such place or places as may be provided by such rules, or by resolution of such committee or resolution of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any resolution. Unless otherwise restricted by the Certificate of Incorporation or by these by-laws, the members of any committee designated by these by-laws or the Board of Directors, may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting may hear each other, and such participation shall constitute presence in person at such meeting. Unless otherwise restricted by the Certificate of Incorporation or these by-laws, any action required or permitted to be taken at any meeting of any committee of the Board of Directors may be taken without a meeting if all members of such committee consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of the committee.

SECTION 4.6. Compensation. Members of special or standing committees may be allowed compensation for attending committee meetings, if the Board of Directors shall so determine.

ARTICLE V

NOTICE

SECTION 5.1. Methods of Giving Notice. Whenever under the provisions of the statutes, the Certificate of Incorporation or these by-laws, notice is required to be given to any director, member of any committee or stockholder, such notice shall be in writing and delivered personally or mailed to such director, member or stockholder; provided that in the case of a director or a member of any committee such notice may be given orally or by telephone, telegram, telegraphic, cable or wireless transmission. If mailed, notice to a director, member of a committee or stockholder shall be deemed to be given when deposited in the United States mail first class in a sealed envelope, with postage therein prepaid, addressed, in the case of a stockholder, to the stockholder at the stockholder's address as it appears on the records of the corporation or, in the case of a director or a member of a committee, to such person at his business address. If sent by telegram, notice to a director or member of a committee shall be deemed to be given when the telegram, so addressed, is delivered to the telegraph company. Notice shall be deemed to have been given on the date of any telegraphic, cable or wireless transmission.

SECTION 5.2. Written Waiver. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these by-laws, a waiver

thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or the by-laws.

ARTICLE VI

OFFICERS

SECTION 6.1. Officers. The officers of the Corporation shall be a Chairman of the Board, one or more Vice Chairmen of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, any one or more of which may be designated Executive Vice President or Senior Vice President, a Secretary, a Controller, and such other officers as the Board of Directors may elect or appoint. The Board of Directors may appoint such other officers and agents, including Assistant Vice Presidents, Assistant Secretaries and Assistant Controllers, as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined by the Board. Any two or more offices, may be held by the same person unless the Certificate of Incorporation provides otherwise. No officer shall execute, acknowledge, verify or countersign any instrument on behalf of the Corporation in more than one capacity, if such instrument is required by law, by these by-laws or by any act of the Corporation to be executed, acknowledged, verified or countersigned by two or more officers. The Chairman of the Board shall be elected from among the directors. With the foregoing exceptions, none of the other officers need be a director, and none of the officers need be a stockholder of the Corporation.

SECTION 6.2. Term of Office. Each officer shall hold office until his successor shall have been chosen and shall have qualified or until his death or the effective date of his resignation or removal, or until he shall cease to be a director in the case of the Chairman and Vice Chairman.

SECTION 6.3. Removal and Resignation. Any officer or agent elected or appointed by the Board of Directors may be removed, with or without cause, by the affirmative vote of a majority of the Board of Directors whenever, in its judgment, the best interests of the Corporation shall be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Any officer may resign at any time by giving written notice to the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at

any later time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6.4. Vacancies. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 6.5. Salaries. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors or pursuant to its direction; no officer shall be prevented from receiving such salary by reason of his also being a director.

SECTION 6.6. Chairman of the Board. The Chairman of the Board (if such office is created by the Board) shall have all powers and shall perform all duties incident to the office of Chairman of the Board. The Chairman shall preside at all meetings of the Board of Directors or of the stockholders of the Corporation. In the Chairman's absence, such duties shall be attended to by the Vice Chairman of the Board (if any, but if there is more than one, the Vice Chairman who is senior in terms of time as such) or (if there is no Vice Chairman) by the President. The Chairman shall formulate and submit to the Board of Directors or the Executive Committee (if any) matters of general policy of the Corporation and shall have such other powers and perform such other duties as usually appertain to the office or as may be prescribed by the Board of Directors or the executive committee. The Chairman of the Board may hold such other offices as the Board of Directors may determine.

SECTION 6.7. Vice Chairmen of the Board. In the absence of the Chairman of the Board, or in the event of his inability or refusal to act, the Vice Chairman (if any, but if there is more than one, the Vice Chairman who is senior in terms of time as such) shall perform the duties and exercise the powers of the Chairman of the Board, and when acting shall have all the powers of and be subject to all the restriction upon the Chairman of the Board. In the absence of the Chairman of the Board, such Vice Chairman shall preside at all meetings of the Board of Directors or of the stockholders of the Corporation. In the Chairman's and Vice Chairmen's absence, such duties shall be attended to by the President. The Vice Chairmen shall perform such other duties, and shall have such other powers, as from time to time may be assigned to them by the Board of Directors or the Executive Committee (if any).

SECTION 6.8 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general manage, supervise, and control the properties, business, and affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. Unless the Board of Directors otherwise determines, the Chief Executive Officer shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the Stockholders and (should he be a director) of the Board of Directors. He may also preside at any such meeting attended by the Chairman of the Board if

he is so designated by the Chairman. He shall have the power to appoint and remove subordinate officers, agents, and employees, except those elected or appointed by the Board of Directors. The Chief Executive Officer shall keep the Board of Directors and the Executive Committee fully informed and shall consult them concerning the business of the Corporation. He shall perform all other duties normally incident to the office of Chief Executive Officer and such other duties, and shall have such other powers, as may be prescribed by the stockholders, the Board of Directors or the Executive Committee (if any) from time to time.

SECTION 6.9 President. The President shall be the chief operating officer of the Corporation and, subject to the control of the Chief Executive Officer and the Board of Directors, shall in general manage, supervise and control the properties, business and day-to-day affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. In the absence of the Chief Executive Officer, or in the event of his inability or refusal to act, the President shall perform the duties and exercise the powers of the Chief Executive Officer. In the absence of the Chairman of the Board and the Chief Executive Officer, the President shall preside at all meetings of the Stockholders and (should he be a director) of the Board of Directors. He may also preside at any such meeting attended by the Chairman of the Board if he is so designated by the Chairman. He shall have the power to appoint and remove subordinate officers, agents and employees, except those elected or appointed by the Board of Directors. Unless the Board of Directors otherwise determines, the President shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation. The President shall keep the Board of Directors, the Executive Committee, and the Chief Executive Officer fully informed and shall consult them concerning the business of the Corporation. He shall vote, or give a proxy to any other officer of the Corporation to vote all shares of stock of any other corporation standing in the name of the Corporation and shall exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation; provided that the Board of Directors may from time to time, by resolution, confer like powers upon any other person or persons. In general the President shall have all powers and shall perform all other duties normally incident to the office of President and such other duties, and shall have such other powers, as may be prescribed by these by-laws, the Board of Directors, or the Executive Committee (if any) from time to time. In the discretion of the Board of Directors, the President may also serve as chief executive officer of the Corporation.

SECTION 6.10. Vice Presidents. The Board of Directors may appoint such Vice Presidents, including, Executive or Senior Vice Presidents, as it may determine to be in the best interests of the Corporation. In the absence of the President, or in the event of his inability or refusal to act, the Executive Vice President (or in the event there shall be no Vice President designated Executive Vice President, any Vice President designated by the Board) shall perform the duties and exercise the powers of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. In the absence of a designation by the Board of Directors of a Vice President to perform the duties of the President, or in the event of his absence or inability or refusal to act, the Vice President who is present and who is senior in terms of time as a Vice President of the Corporation shall so act. Any Vice President may sign,

with the Secretary or Assistant Secretary, certificates for shares of the Corporation. Each Vice President shall perform all duties incident to the office of Vice President and shall have such powers and perform such other duties, as from time to time may be assigned to him by these by-laws or by the Chief Executive Officer, the President, the Board of Directors, or the Executive Committee (if any).

SECTION 6.11. Secretary. The Secretary shall (a) keep the minutes of the meetings of the stockholders, the Board of Directors, and committees of directors; (b) see that all notices are duly given in accordance with the provisions of these by-laws and as required by law; (c) be custodian of the corporate records and of the seal of the Corporation, and see that the seal of the Corporation or a facsimile thereof is affixed to all certificates for shares prior to the issue thereof and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these by-laws and attest the affixation of the seal of the Corporation thereto; (d) keep or cause to be kept a register of the post office address of each stockholder which shall be furnished by such stockholder; (e) sign with the President, or an Executive Vice President or Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general, shall have such other powers and shall perform all duties normally incident to the office of Secretary and such other duties, and shall have such other powers, as from time to time may be assigned to him by these by-laws, the Chief Executive Officer, the President, the Board of Directors, or the Executive Committee (if any).

SECTION 6.12. Controller. The Controller shall (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any source whatsoever and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of Section 7.3 of these by-laws; (b) prepare, or cause to be prepared, for submission at each regular meeting of the Board of Directors, at each annual meeting of the stockholders, and at such other times as may be required by the Board of Directors, the President or the executive committee (if any), a statement of financial condition of the Corporation in such detail as may be required; and (c) in general, shall have all powers and shall perform all the duties incident to the office of Controller and such other duties, and shall have such other powers, as from time to time may be assigned to him by these by-laws, the Chief Executive Officer, the President, the Board of Directors, or the Executive Committee (if any). If required by the Board of Directors, the Controller shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

SECTION 6.13. Assistant Secretary or Controller. The Assistant Secretaries and Assistant Controllers shall, in general, perform such duties and have such powers as shall be assigned to them by the Secretary or the Controller, respectively, or by the Chief Executive Officer, the President, the Board of Directors or the Executive Committee. The Assistant Secretaries and Assistant Controller shall, in the absence or inability or refusal to act of the

Secretary or Controller, respectively, perform all functions and duties which such absent officers may delegate, but such delegation shall not relieve the absent officer from the responsibilities and liabilities of his office. The Assistant Secretaries may sign, with the President or a Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by a resolution of the Board of Directors. The Assistant Controllers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine.

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.1. Contracts. Except as otherwise provided in these by-laws or by law or as otherwise directed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, and Vice President, or the Secretary shall be authorized to execute and deliver, in the and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate shall be affixed thereto by any such officer or the Secretary or an Assistant Secretary. The Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the President or, if designated by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the President, any Vice President or the Secretary, may authorize any other officer, employee, or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board of Directors or any such officer may be general or confined to specific conditions. Subject to the foregoing provisions, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 7.2. Checks, Etc. All checks, demands, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed and, if so required by the Board of Directors, shall be countersigned by such officer or officers or such agent or agents of the Corporation, and in such manner, as shall be determined by the Board of Directors.

SECTION 7.3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select. Checks, drafts, bills of exchange, acceptances, notes, obligations, and orders for payment of money made payable to the Corporation

may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Controller and/or such other officers or persons as the Board of Directors from time to time may designate.

SECTION 7.4. Loans. No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized so to do, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company, or other institution or from any individual, corporation, or firm, and for such loans and advances may make, execute, and deliver promissory notes, bonds, or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate, or transfer as security for the payment of any and all loans, advances, indebtedness, and liabilities of the Corporation, any and all stocks, securities, and other real or personal property at any time held by the Corporation and to that end may endorse, assign, and deliver same. Such authority may be general or confined to specific instances.

ARTICLE VIII

CERTIFICATES OF STOCK

SECTION 8.1. Issuance. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all classes or series of the Corporation's stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to a certificate or certificates showing the number of shares of stock registered in his name on the books of the Corporation. The certificates shall be in such form as may be determined by the Board of Directors, shall be issued in numerical order and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares (and if the stock of the Corporation shall be divided into classes or series, the class or series of such shares) and shall be signed by the Chairman of the Board, the Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary or the Controller or Assistant Controller. Any of or all of the signatures on the certificate may be facsimiles. The stock record books and the blank stock certificate books shall be kept by the Secretary, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer, transfer agent or registrar who shall have signed or whose facsimile signature or signatures shall have been placed upon any such certificate or certificates shall have ceased to be such officer, transfer agent or registrar before such certificate is issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class of stock; provided that, except as otherwise provided by statute, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance of transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this Section 8.1 or otherwise required by statute or with respect to this Section 8.1 a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in the case of a lost, stolen, destroyed or mutilated certificate a new one may be issued therefor upon such terms and with such indemnity, if any, to the Corporation as the Board of Directors may prescribe. Certificates shall not be issued representing fractional shares of stock.

SECTION 8.2. Lost Certificates. The Board of Directors may direct a new certificate of stock or uncertificated shares to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as it shall require or to give the Corporation a bond in such sum as it may deem sufficient to indemnify it against any claim that may be made against the Corporation on account of the alleged loss, theft or destructions of any such certificate or the issuance of such new certificate or uncertificated shares, or both.

SECTION 8.3. Transfers. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue

a new certificate to the person entitled thereto, cancel the old certificate and register the transaction upon its books. Upon presentation to the Corporation or the transfer agent of the Corporation of an instruction with a request to transfer, pledge or release an uncertificated share or shares, it shall be the duty of the Corporation to register the transfer, pledge or release upon its books, and shall provide the registered owner with such notices as may be required by law. Transfers of shares shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney and filed with the Secretary of the Corporation or the transfer agent.

SECTION 8.4. Registered Stockholders. The Corporation shall be entitled to treat the registered owner of any share or shares of stock whether certificated or uncertificated as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

SECTION 8.5. Regulations Regarding Certificates. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of capital stock of the Corporation.

ARTICLE IX

DIVIDENDS

SECTION 9.1. Declaration. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the Certificate of Incorporation.

SECTION 9.2. Reserve. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, shall think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

INDEMNIFICATION

SECTION 10.1. Third Party Actions. This Corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request shall advance expenses to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative (other than an action by or in the name of the Corporation) by reason of the fact that such person is or was or has agreed to be a director, officer, employee, or agent of this Corporation or any of its direct or indirect subsidiaries or while such person is or was serving at the request of this Corporation as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interest of the Corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful; provided, however, that the foregoing shall not require this Corporation to indemnify or advance expenses to any person in connection with any action, suit, proceeding, claim or counterclaim initiated by or on behalf of such person. Such indemnification shall not be exclusive of other indemnification rights arising under any by-laws, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any person seeking indemnification under this Section 10.1 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established.

SECTION 10.2. Actions By or in the Right of the Corporation. This Corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request shall advance expenses to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim by or on the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was or has agreed to be a director, officer, employee, or agent of this Corporation or any of its direct or indirect subsidiaries or while such person is or was serving at the request of this Corporation as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interest of the Corporation, and except that no indemnification shall be made with respect to any claim, issue, or matter as to which such person shall have been adjudged to

be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Such indemnification shall not be exclusive of other indemnification rights arising under any by-laws, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any person seeking indemnification under this Section 10.2 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established.

SECTION 10.3. Successful Defense. To the extent that a director, officer, employee, or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in Sections 10.1 or 10.2 or in defense of any claim, issue, or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonable incurred by him in connection therewith.

SECTION 10.4. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article X of the by-laws.

SECTION 10.5. Definitions. For purposes of this Article X, reference to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence has continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article X with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

For purposes of this Article X, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article X.

SECTION 10.6. Survival; Preservation of Other Rights. The foregoing indemnification provisions shall be deemed to be a contract between the Corporation and each director, officer, employee, and agent who serves in any such capacity at any time while these provisions as well as relevant provisions of the Delaware General Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit, or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a contract right may not be modified retroactively without the consent of such director, officer, employee, or agent.

The indemnification provided by this Article X shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding officer, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. Seal. The Board of Directors may provide a suitable seal, containing the name of the corporation, and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

SECTION 11.2. Books. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors.

SECTION 11.3. Fiscal Year. The fiscal year of the Corporation shall be such as established from time to time by the Board of Directors.

SECTION 11.4. Resignations. Any director, member of a committee, or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

SECTION 11.5. Facsimile Signatures. In addition to the provisions for the use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors.

SECTION 11.6. Reliance upon Books, Reports and Records. Each director and each member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officers, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or by any such committee, or in relying in good faith upon other records of the Corporation.

ARTICLE XII

AMENDMENT

If provided in the Certificate of Incorporation of the Corporation, the Board of Directors shall have the power to adopt, amend and repeal from time to time by-laws of the Corporation, subject to the right of the stockholders entitled to vote with respect thereto to amend or repeal such by-laws as adopted or amended by the Board of Directors.

WASTE MANAGEMENT, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (IN THOUSANDS, EXCEPT RATIOS)
 (UNAUDITED)

	Six Months Ended June 30,	
	----- 1999 -----	----- 1998 -----
Income before income taxes, extraordinary item and minority interests	\$1,153,573	\$ 817,346
Fixed charges deducted from income:		
Interest expense	361,068	329,085
Implicit interest in rents	76,831	27,318
	----- 437,899	----- 356,403
Earnings available for fixed charges	\$1,591,472 =====	\$1,173,749 =====
Interest expense	\$ 361,068	\$ 329,085
Capitalized interest	22,440	18,561
Implicit interest in rents	76,831	27,318
Total fixed charges	\$ 460,339 =====	\$ 374,964 =====
Ratio of earnings to fixed charges	3.5 x =====	3.1 x =====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF WASTE MANAGEMENT, INC. FOR THE SIX MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

	6-MOS	
	DEC-31-1999	
	JAN-01-1999	
	JUN-30-1999	
		80,999
		8,119
		2,783,054
		127,656
		0
		3,506,258
		18,706,738
		6,852,427
		22,991,673
	3,828,059	
		10,932,384
	0	
		0
		6,251
		5,469,681
22,991,673		
		6,405,210
	6,405,210	
		3,544,876
		4,929,628
		26,050
		0
	361,068	
	1,140,564	
		475,614
	664,950	
		0
		0
		0
		664,950
		1.10
		1.05

THIS SCHEDULE CONTAINS RESTATED SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF WASTE MANAGEMENT, INC. FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	
	DEC-31-1998
	JAN-01-1999
	MAR-31-1999
	59,364
	8,270
	2,498,384
	124,984
	0
	3,528,317
	18,424,652
	6,913,020
	22,582,969
4,037,394	
	10,981,152
	0
	0
	6,139
	4,806,976
22,582,969	
	3,070,635
	3,070,635
	1,676,783
	2,310,537
	10,719
	0
	176,157
	594,660
	247,972
346,688	
	0
	0
	0
	346,688
	0.58
	0.55