

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 SEPTEMBER 30, 2002

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 October 28, 2002 was 608,679,670 (excluding treasury shares of 21,628,363).

PART I

ITEM 1. FINANCIAL STATEMENTS.

WASTE MANAGEMENT, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN MILLIONS, EXCEPT SHARE AND PAR VALUE AMOUNTS)

SEPTEMBER 30, 2002	DECEMBER 31, 2001	-----
---- (UNAUDITED) ASSETS		
Current assets: Cash and cash equivalents..... \$ 656 \$ 730		
Accounts receivable, net of allowance for doubtful accounts of \$61 and \$73, respectively.....	1,490	1,355
Notes and other receivables.....	265	314
Parts and supplies.....	81	83
Deferred income taxes.....	439	426
Prepaid expenses and other.....	148	216
-----	-----	-----
-- Total current assets.....	3,079	3,124
Property and equipment, net of accumulated depreciation and amortization of \$8,359 and \$7,578, respectively.....	10,539	10,357
Goodwill.....	5,047	4,998
Other intangible assets, net.....	109	123
Other assets.....	1,215	888
-----	-----	-----
Total assets.....	\$19,989	\$19,490
===== LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities: Accounts payable..... \$ 533 \$ 672		
Accrued liabilities.....	2,320	2,160
Deferred revenues.....	407	374
Current portion of long-term debt.....	375	515
-----	-----	-----
Total current liabilities.....	3,635	3,721
Long-term debt, less current portion.....	8,151	7,709
Deferred income taxes.....	1,233	1,127
Environmental liabilities.....	898	825
Other liabilities.....	646	703
-----	-----	-----
Total liabilities.....	14,563	14,085
Minority interest in subsidiaries.....	16	13
-----	-----	-----
-- Commitments and contingencies	Stockholders' equity:	
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 630,308,032 and 630,331,591 shares issued, respectively.....	6	6
Additional paid-in capital.....	4,519	4,523
Retained earnings.....	1,637	1,057
Accumulated other comprehensive loss.....	(194)	(148)
Restricted stock unearned compensation.....	--	(2)
Treasury stock at cost, 21,650,089 and 2,313,883 shares, respectively.....	(558)	(44)
-----	-----	-----
Total stockholders' equity.....	5,410	5,392
-----	-----	-----
Total liabilities and stockholders' equity.....	\$19,989	\$19,490
=====	=====	=====

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	2002	2001	2002	2001	2002	2001
--- Operating								
revenues.....			\$2,896					
\$2,897	\$8,330	\$8,531						
and expenses: Operating (exclusive of depreciation and amortization shown below).....			1,746					
1,693	5,000	5,071						
administrative.....			376	383	1,122	1,170		
amortization.....			311	352	918			
			1,028					
Restructuring.....								
1 -- 38 -- Asset impairments and unusual items.....			(3)	354	(9)	362		
2,431	2,782	7,069	7,631					
operations.....			465	115				
1,261	900							Other income
(expense): Interest expense.....			(118)					
(124)	(350)	(425)						
income.....			5	7	14			
34	Minority							
interest.....			(1)					
(4)	(3)	Other income,						
net.....			1	1	4	9		
(113)	(116)	(336)	(385)					
Income (loss) before income taxes.....			352	(1)	925	515		
Provision for (benefit from) income taxes.....			121	(32)	340	170		
Income before extraordinary item and cumulative effect of changes in accounting principle.....			231	31	585	345		
Extraordinary loss on early retirement of debt, net of income tax benefit of \$0 and \$1 for both the three and nine months ended September 30, 2002 and 2001, respectively.....								
-- (1) (1) (2) Cumulative effect of changes in accounting principle, net of income tax expense of \$0 and \$2 for the nine months ended September 30, 2002 and 2001, respectively.....			--	--	2	2		
Net income.....			\$ 231	\$ 30	\$ 586	\$ 345		
Basic earnings per common share: Income before extraordinary item and cumulative effect of changes in accounting principle.....			\$ 0.38	\$ 0.05	\$ 0.95	\$ 0.55		
0.95	\$ 0.55	Extraordinary						
item.....								
Cumulative effect of changes in accounting principle... Net								
income.....			\$ 0.38	\$ 0.05	\$ 0.95	\$ 0.55		
Diluted earnings per common share: Income before extraordinary item and cumulative effect of changes in accounting principle.....			\$ 0.38	\$ 0.05	\$ 0.94	\$ 0.55		
0.38	\$ 0.05	\$ 0.94	\$ 0.55	Extraordinary				
item.....								
Cumulative effect of changes in accounting principle... Net								
income.....			\$ 0.38	\$ 0.05	\$ 0.94	\$ 0.55		
Cash dividends declared per common share.....			\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01		

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

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

NINE MONTHS ENDED SEPTEMBER 30, ----- 2002

2001 ----- Cash flows from operating

activities: Net

income.....			\$
586 \$ 345 Adjustments to reconcile net income to net cash			
provided by operating activities: Provision for bad			
debts.....	26	10	
and amortization.....	918	1,028	
Deferred income tax provision.....		107	
39 Minority interest in subsidiaries.....			
4 3 Net gain on disposal of assets.....			
(7) (15) Effect of asset impairments and unusual			
items.....	(9)	362	
Change in assets and liabilities,			
net of effects of acquisitions and divestitures:			
Receivables.....		(61)	
(80) Prepaid expenses and other current assets.....			
(12) 11 Other			
assets.....	6	(16)	
Accounts payable and accrued liabilities.....		(59)	
(153) Deferred revenues and other liabilities.....			
28 (26) ----- Net cash provided by operating			
activities.....	1,527	1,508	
Cash flows from investing activities: Acquisitions of			
businesses, net of cash acquired.....	(125)	(95)	
Capital			
expenditures.....		(914)	
(843) Proceeds from divestitures of businesses, net of			
cash divested, and other sales of			
assets.....	82	42	
Other.....			
174 109 ----- Net cash used in investing			
activities.....	(783)	(787)	
-- Cash flows from financing activities New			
borrowings.....			
498 1,230 Debt			
repayments.....			
(781) (1,995) Common stock			
repurchases.....		(561)	--
Exercise of common stock options and			
warrants.....	25	46	
Other.....			
-- (19) ----- Net cash used in financing			
activities.....	(819)	(738)	
-- Effect of exchange rate changes on cash and cash			
equivalents.....			
1 (2) ----- Decrease in cash and cash			
equivalents.....	(74)	(19)	
Cash and cash equivalents at beginning of period.....		730	
94 ----- Cash and cash equivalents at end of			
period.....	\$ 656	\$ 75	=====

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (IN MILLIONS, EXCEPT SHARES IN THOUSANDS)
 (UNAUDITED)

ACCUMULATED COMMON STOCK				
ADDITIONAL OTHER RESTRICTED				
STOCK TREASURY STOCK -----				
----- PAID-IN RETAINED				
COMPREHENSIVE UNEARNED ----				
----- SHARES AMOUNT				
CAPITAL EARNINGS LOSS				
COMPENSATION SHARES AMOUNT				

Balance, December 31,				
2001....	630,332	\$6	\$4,523	
\$1,057	\$(148)	\$(2)	2,314	\$
(44) Net				
income.....				--
-- -- 586 -- -- -- -- Cash				
dividends declared.....				--
-- -- (6) -- -- -- --				
Common stock issued upon				
exercise of stock options				
and warrants, including tax				
benefit of \$6.....	--	--	--	--
- (4) -- -- -- (1,470) 35				
Common stock repurchases,				
net of settlements.....				
-- -- -- -- -- 21,300				
(561) Earned compensation				
related to restricted				
stock..... (12) -- -- --				
-- 2 -- -- Deferred loss on				
derivative instruments, net				
of tax benefit of				
\$32.....	--	--	--	--
(49) -- -- -- Unrealized				
loss on marketable				
securities, net of tax				
benefit of \$4.....	--	--	--	--
- -- (6) -- -- --				
Cumulative translation				
adjustment of foreign				
currency statements.....				
-- -- -- -- 9 -- -- --				
Other.....				
(12) -- -- -- -- (494)				
12 -----				

Balance, September 30,				
2002... 630,308	\$6	\$4,519		
\$1,637	\$(194)	\$--	21,650	
\$(558) =====	==	=====		
=====	=====	=====		
=====				

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The consolidated financial statements of Waste Management, Inc., a Delaware corporation, and subsidiaries ("Waste Management" or the "Company") presented herein are unaudited. In the opinion of management, these financial statements include all adjustments, which, except as described elsewhere herein, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. These estimates and assumptions will also affect the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ materially based on any changes in estimates and assumptions that the Company uses in the preparation of its financial statements. Additionally, the estimates and assumptions used in landfill airspace amortization and final closure and post-closure rates per ton and environmental remediation liabilities require significant engineering and accounting input. The Company reviews these estimates and assumptions no less than annually. In many circumstances, the ultimate outcome of these estimates and assumptions may not be known for decades into the future. Actual results could differ materially from these estimates and assumptions due to changes in environmental-related regulations or future operational plans, and the inherent imprecision associated with estimating matters so far into the future. See "Management's Discussion and Analysis" elsewhere herein.

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

During the second quarter of 2002, the Company reviewed the accounting and reporting for certain contractual arrangements entered into in the mid-1980s relating to a waste-to-energy plant owned by a subsidiary of Wheelabrator Technologies Inc. ("WTI") and determined to change its previous accounting by recording the assets and liabilities associated with these arrangements on the Company's balance sheet. As a result, the Company recorded an increase in property, plant and equipment in the second quarter of 2002 of approximately \$72 million; an increase in other long-term assets of approximately \$52 million; an increase in debt of approximately \$114 million (which included the then current portion of approximately \$20 million that was paid in the third quarter of 2002); and an increase in other liabilities of \$5 million. The Company also recognized income of \$5 million for the quarter ended June 30, 2002 for the adjustments to the accounting for the contractual arrangements. As of September 30, 2002, approximately \$94 million of debt, of which \$6 million is current, associated with this agreement has been included in the condensed consolidated balance sheet.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. LONG-TERM DEBT

Long-term debt consisted of the following (in millions):

SEPTEMBER 30, 2002	DECEMBER 31, 2001	-----
----- Senior notes and debentures,		
maturing through 2032, interest of 6.375% to		
8.75%.....		
\$6,563	\$6,169	4% Convertible subordinated
notes due 2002..... -- 427 5.75%		
Convertible subordinated notes due 2005 (2%		
interest rate and 3.75% issuance		
discount)..... 32 31 Tax-		
exempt and project bonds, principal payable in		
periodic installments, maturing through 2031,		
fixed and variable interest rates ranging from		
1.63% to 10.0% (weighted average interest rate		
of 4%) at September 30, 2002..... 1,731		
1,404 Installment loans, notes payable and		
other, maturing through 2019, interest from 5%		
to 12%..... 200 193 --		
----- 8,526 8,224 Less current		
portion.....		
375	515	----- \$8,151 \$7,709 =====
=====		

On June 27, 2002, the Company replaced its \$750 million syndicated 364 day line of credit with a \$620 million syndicated revolving credit facility (the "Three Year Revolver"). During the third quarter of 2002 the credit capacity of the Three Year Revolver was increased to \$650 million. The Company maintained its \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). No balances were outstanding from the Company's revolving credit facilities as of December 31, 2001 or September 30, 2002. The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of September 30, 2002, the Company had letters of credit in the aggregate amount of approximately \$1,600 million (of which approximately \$1,490 million were issued under the revolving credit facilities) that generally have terms allowing automatic renewal after a year. At September 30, 2002, the Company had unused and available credit capacity under these facilities of approximately \$910 million.

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

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

The Company has \$350 million of 6.5% senior notes due December 15, 2002. The Company also has \$450 million of 7.1% senior notes due August 1, 2026 that are subject to early redemption on August 1, 2003 at the option of the holder. The Company has classified these borrowings as long-term at September 30, 2002 based upon its ability to use its revolving credit facilities, which are both long-term, to refinance these borrowings at their respective maturity or repayment dates. The Company intends to pursue other sources of

\$ -- (c),
 (d)
 September
 30,
 2002.....
 \$ (4) (b)
 September
 30,
 2002.....
 \$166 (c)

- (a) The fair value for interest rate derivatives is included in the Company's balance sheet as components of other long-term assets and other long-term liabilities.
- (b) The interest rate contract's terms do not qualify for hedge accounting. Therefore, the contract is accounted for using mark-to-market accounting and changes in fair value are immediately recognized in interest expense.
- (c) The terms of the interest rate contracts and the underlying debt instruments are identical. Accordingly, these interest rate contracts are recorded at fair value and changes in fair value of these interest rate contracts are deferred as an adjustment to the carrying value of the underlying debt instruments and recognized in interest expense over the life of the underlying debt instruments.
- (d) The fair value for these interest rate derivatives at December 31, 2001, is comprised of \$20 million long-term risk management assets and \$20 million long-term risk management liabilities.

In July 2002, the Company elected to terminate several interest rate swap agreements with a notional amount of \$600 million prior to the scheduled maturities and received cash of \$55 million (which is comprised of \$43 million for the fair value of the swaps that were terminated and \$12 million of accrued but unpaid interest receivable) from the counterparties to the interest rate swaps. Under the hedge method of accounting for these types of derivatives, the unamortized adjustment to long-term debt for the terminated swaps remains classified as long-term debt. The proceeds received from the termination of the interest rate swap agreements have been classified as a change in other assets or other liabilities within operating activities in the accompanying condensed consolidated statement of cash flows.

The carrying value of debt instruments have been increased by approximately \$255 million and \$62 million as of September 30, 2002 and December 31, 2001, respectively, related to the accounting for interest rate swap contracts. The following table summarizes the accumulated fair value adjustments from interest rate swap agreements by underlying debt instrument category (in millions):

SEPTEMBER 30, DECEMBER 31, INCREASE IN CARRYING VALUE		OF DEBT DUE TO ACCOUNTING FOR INTEREST RATE SWAPS	
2002	2001	-----	

----- Senior notes and debentures: Active swap			
agreements.....			
	\$166	\$--	Terminated swap
agreements.....			88
60	----	254	60 Tax-exempt and project bonds:
			Terminated swap
agreements.....			1
	2	----	\$255 \$62 =====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Interest rate swap agreements reduced interest expense by \$21 million and \$64 million for the three and nine months ended September 30, 2002, respectively, and \$16 million and \$21 million for the three and nine months ended September 30, 2001, respectively.

The Company also entered into hedging agreements in February 2001 and during the second quarter of 2002 to secure the then current market interest rate in anticipation of senior unsecured note issuances. At September 30, 2002, these cash flow hedges resulted in a deferred loss, net of taxes, of \$50 million, which is included in accumulated other comprehensive income. The \$50 million deferred loss includes \$8 million for hedges that have terminated concurrently with a senior unsecured note issuance. Of this \$8 million, \$1 million (on a pre-tax basis) is scheduled to be reclassified into interest expense over the next 12 months.

During June 2002, the Company entered into forward contracts, which expire in December 2002 and 2003, and cross-currency swaps, which expire in May 2004, with net notional amounts of \$165 million Canadian dollars to mitigate the risk of foreign currency exchange rate fluctuations associated with the conversion of Canadian dollars into US dollars. At September 30, 2002, these derivatives have a net fair value of approximately \$3 million and are included in other long-term assets. The Company had no foreign currency derivatives outstanding at December 31, 2001.

2. INCOME TAXES

The current and deferred tax obligations associated with the provision for income taxes recorded in the statement of operations are reflected in the accompanying condensed consolidated balance sheets as a component of accrued liabilities and deferred income taxes, respectively. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and nine months ended September 30, 2002 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. In addition, the Company recognized a tax benefit of approximately \$12 million in the third quarter of 2002 due to the anticipated capital gain from a fourth quarter 2002 sale which enables the Company to utilize a previously fully reserved capital loss that arose from a divestiture that occurred earlier in 2002. The remaining benefit will be recognized in the fourth quarter. For the three and nine months ended September 30, 2001, the difference is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles and non-deductible costs associated with the impairment and divestiture of certain businesses. Additionally, in the second quarter of 2001, scheduled Canadian federal and provincial tax rate reductions resulted in a tax benefit of \$42 million, which was offset in part by a tax expense of \$30 million related to the Company's plan to repatriate certain Canadian capital and earnings previously deemed permanently invested in Canada.

3. 2002 RESTRUCTURING

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

In March of 2002, all of the Company's operations other than WTI and Canadian Waste Services ("CWS") were restructured to reduce the number of field layers of management from four to three and the number of field layers that have administrative and functional staff from four to two. Under the new structure, the Company's approximately 1,200 operating sites, including waste collection depots, transfer stations, landfills and recycling facilities, were restructured into approximately 82 newly established Market Areas. These Market Areas are responsible for the sales and marketing of the Company's services and for directing the delivery of service by the districts. The Market Area is also the profit center, and the districts, all of which

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

used to be profit centers, became cost centers. The largest Market Areas are headed by a Vice President and the others are headed by a General Manager. The Market Areas consolidate financial reporting and provide a range of assistance in the areas of finance and accounting, procurement, people, market planning and development, fleet services, recycling, legal services, engineering, regulatory compliance, safety and public affairs to support the districts. These Market Areas all report to one of four Groups that divide the United States geographically, and which were formerly known as the Company's "Areas." CWS, which was restructured into ten newly established Market Areas in July 2002, and WTI were the fifth and sixth Groups under the previous structure and continue as the fifth and sixth Groups under the new structure.

The Company recorded \$1 million and \$38 million of pre-tax charges for costs associated with the implementation of the new structure for the three and nine months ended September 30, 2002, respectively. These charges include \$36 million for employee severance and benefit costs and \$2 million related to abandoned operating lease agreements. The Company expects to incur an additional \$3 million of restructuring expenses in the last quarter of 2002 primarily related to the relocation of employees and the consolidation of facilities to support the new organizational structure.

Under the new structure approximately 1,900 field-level administrative and operational positions have been eliminated. The Company's obligation for severance payments will continue during the last quarter of 2002 and, in some cases, into 2003. As of September 30, 2002, payments of \$29 million for employee severance and benefits and for abandoned leases had been recorded against the restructuring liability that was previously established.

4. EARNINGS PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2001	ENDED SEPTEMBER 30, 2002	ENDED SEPTEMBER 30, 2001
Income before extraordinary item and cumulative effect of changes in accounting principle.....	\$231	\$31	\$585	\$345
Interest on convertible securities, net of income taxes.....	--	--	1	--
Diluted income before extraordinary item and cumulative effect of changes in accounting principle.....	231	31	586	345
Extraordinary loss on early retirement of debt, net of income tax benefit.....	--	(1)	--	(1)
Cumulative effect of changes in accounting principle, net of income tax expense.....	--	--	2	2
Diluted net income.....	\$231	\$30	\$587	\$345
			====	====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following reconciles the number of common shares outstanding at September 30 of each year to the weighted average number of common shares outstanding and the weighted average number of common and dilutive potential common shares outstanding for the purposes of calculating basic and diluted earnings per common share (shares in millions):

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2001	ENDED SEPTEMBER 30, 2002	ENDED SEPTEMBER 30, 2001
Number of common shares outstanding at end of period.....	608.7	608.7	627.5	627.5
Effect of using weighted average common shares outstanding.....	1.7 (0.5)	8.4 (1.7)		
Basic common shares outstanding.....	610.4	627.0	617.1	625.8
Dilutive effect of common stock options and warrants.....	2.8	5.3	3.7	4.5
Dilutive effect of convertible subordinated notes.....	--	--	1.1	--
Diluted common shares outstanding.....	621.9	630.3	613.2	632.3

For the three months ended September 30, 2002 and the three and nine months ended September 30, 2001, the effect of the Company's convertible subordinated notes is excluded from the diluted earnings per share calculation because its inclusion would be antidilutive.

At September 30, 2002, there were approximately 47 million shares of common stock potentially issuable with respect to stock options, warrants and convertible debt, of which approximately 25 million shares were not included in the diluted earnings per share computation because their exercise price was greater than the average per share market price of the Company's stock for the three and nine months ended September 30, 2002. Including the impact of these potentially issuable shares in the current period calculations would have been antidilutive for the periods presented, but could further dilute earnings per share in the future.

In the third quarter of 2002, the Company declared an annual cash dividend of \$0.01 per share, or approximately \$6 million, to stockholders of record on September 30, 2002, which was paid on October 15, 2002.

5. DERIVATIVE INSTRUMENT POTENTIALLY SETTLED IN COMMON STOCK

In the first quarter of 2002, the Company entered into a transaction to purchase stock under an accelerated stock repurchase master agreement, purchasing approximately 10.9 million shares at \$27.46 per share for a total of approximately \$300 million. Under the agreement, if the weighted average daily market price at the end of the valuation period times the number of shares initially purchased exceeded the approximately \$300 million paid by the Company, the difference would have been paid by the Company to the counterparty. However, if at the end of the valuation period the weighted average daily market price times the number of shares initially purchased was less than the amount paid by the Company, this deficiency would be paid by the counterparty to the Company. The Company accounted for the initial payment as a purchase of treasury stock and classified the future settlement with the counterparty as an equity instrument because the Company had the option under the agreement to settle its obligations, if it had any obligations, in shares of its common stock.

The weighted average daily market price of the stock during the valuation period times the number of shares initially purchased by the Company was approximately \$18 million less than the approximately \$300 million the Company paid for the repurchase. Therefore, during the third quarter of 2002 the counterparty paid the Company approximately \$18 million in cash to settle the agreement. The Company accounted for the cash receipt as an adjustment to the carrying value of treasury stock and has therefore

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

included it in common stock repurchases within financing activities in the accompanying condensed consolidated statement of cash flows.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is as follows (in millions):

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED 2001	ENDED 2001	ENDED 2002	SEPTEMBER 30, 2001	SEPTEMBER 30, 2002	Net
income.....	\$231	\$30	\$586	\$345			Other
comprehensive income (loss):	Changes in minimum pension liability adjustment, net of taxes.....						
	--	--	3	Unrealized gain (loss) on derivative instruments.....	(25)	(2)	(49)
			5	Unrealized gain (loss) on marketable securities, net of taxes.....	(1)	2	(6)
			10	Foreign currency translation adjustment.....	(28)	(40)	9
				Other comprehensive loss.....	(54)	(40)	(46)
	(25)			Total comprehensive income (loss).....	\$177	\$(10)	\$540
					\$320		

The components of accumulated other comprehensive loss were as follows (in millions):

	SEPTEMBER 30, 2002	DECEMBER 31, 2001	2002	2001
----- Minimum pension liability adjustment, net of taxes.....	\$ (1)	\$ (1)	Accumulated unrealized gain (loss) resulting from changes in fair values of derivative instruments, net of taxes.....	(44)
5			Accumulated unrealized loss from derivative instruments reclassified into earnings, net of taxes.....	(4)
(4)			Accumulated unrealized gain on marketable securities, net of taxes.....	
--			6	Cumulative foreign currency translation adjustment.....
(145)	(154)			\$(194)
				\$(148)

7. ENVIRONMENTAL LIABILITIES

The Company has material financial commitments for final closure and post-closure obligations with respect to the landfills it owns or operates. Estimates of 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. Adjustments for final closure and post-closure estimates are accounted for prospectively over the remaining capacity of the landfill. The estimates are based on the Company's interpretation of current requirements and proposed regulatory changes. For landfills, the present value of final closure and post-closure liabilities is accrued using a calculated rate per ton and charged to expense as airspace is consumed. Each year the Company revises its calculated rate per ton to reflect accretion on the present value of the liability. The revised rate per ton is calculated by dividing the revised present value of the liability, less the accumulated liability recognized to date, by the estimated remaining capacity of the landfill. The present value of total estimated final closure and post-closure costs will be fully accrued for each landfill at the time the site discontinues accepting waste and is closed. Final closure and post-closure accruals consider estimates for the final cap and cover for the site, methane gas control, leachate management and groundwater monitoring, and other operational and maintenance costs to be incurred after the site discontinues accepting waste, which is

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

generally expected to be for a period of up to thirty years after final site closure. For purchased disposal sites, the Company assesses and records a present value-based final closure and post-closure liability at the time the Company assumes closure responsibility. This liability is based on the estimated final closure and post-closure costs and the percentage of airspace used as of the date the Company has assumed the closure responsibility. Thereafter, the difference between the final closure and post-closure liability recorded at the time of acquisition and the present value of total estimated final closure and post-closure costs to be incurred is accrued using the calculated rate and charged to operating costs as airspace is consumed.

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

The Company routinely reviews and evaluates sites that require remediation, including sites listed on the EPA's National Priorities List ("NPL sites"). The Company considers whether the Company was an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years the Company was connected with the site. The Company also reviews the same information with respect to other named and unnamed potentially responsible parties ("PRPs"). The Company then reviews the estimated cost for the likely remedy, which is based on management's judgment and experience in remediating such sites for the Company as well as for unrelated parties, information available from regulatory agencies as to costs of remediation, and the number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site, as well as the typical allocation of costs among PRPs. These estimates are sometimes a range of possible outcomes. In those cases, the Company uses the amount within the range that constitutes its best estimate. If no amount within the range appears to be a better estimate than any other, the Company uses the amounts that are the low ends of the ranges in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and its interpretations. Were the Company to use the high ends of such ranges, it is reasonably possible that the Company's potential liability would be approximately \$220 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of September 30, 2002. As used in this context, "reasonably possible" means the Company believes it is more than remote but less than likely.

As of September 30, 2002, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 75 locations listed on the NPL at which the Company's liability has not been rendered remote as a result of a settlement, judgment or other facts. Of the 75 NPL sites at which claims remain unliquidated, 17 are sites that the Company currently owns. All of the NPL sites owned by the Company were initially developed by others as landfill disposal facilities. At each of the 17 owned facilities, the Company is working with the appropriate government agency to characterize or remediate identified site problems. In addition, at these 17 owned facilities, the Company has either agreed with other liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The Company believes that the remediation costs associated with the 17 NPL sites it currently owns are accrued for adequately. The 58 NPL sites at which claims against the Company remain unliquidated and that are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of governmental decisions as to the appropriate remedy and agreements 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, and as they become estimable, could have a material adverse effect on the Company's financial statements.

Estimates of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult, and the ultimate outcome may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

inability of other PRPs to contribute to the settlements of such liabilities, or other factors could necessitate the recording of additional liabilities that could be material. Additionally, the Company's ongoing review of its remediation liabilities could result in revisions that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is increased for inflation until expected time of payment and then discounted to present value. The inflation rate and discount rate, which are based on the rates for United States Treasury bonds, are reviewed on an annual basis. At both September 30, 2002 and December 31, 2001, the inflation rate and discount rate were 2.0% and 5.5%, respectively. The accretion of the interest related to the discounted environmental liabilities for operating landfills is included in the annual calculation of the landfill's final closure and post-closure cost per ton and is charged to operating costs as landfill airspace is consumed. This practice, as it relates to operating landfills, will change upon the Company's adoption of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"). See Note 12 for additional comments on this pronouncement.

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

SEPTEMBER 30, 2002			
DECEMBER 31, 2001			

-- FINAL CLOSURE/ FINAL CLOSURE/ POST-CLOSURE REMEDIATION TOTAL			
POST-CLOSURE REMEDIATION TOTAL			

Current (in accrued liabilities).....			
\$ 55 \$ 55 \$ 110 \$			
55 \$ 66 \$121 Long-			
term.....			
598 300 898 570			
255 825 ---- ----			

---	\$653	\$355	
\$1,008	\$625	\$321	
\$946	====	====	
=====	=====	=====	
=====			

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

NINE MONTHS ENDED SEPTEMBER 30, -----	2002	2001	--

-----	Beginning		
balance.....		\$ 946	
	\$962		
Expense.....			
	45	51	
Spending.....			
(50) (63) Acquisitions, divestitures and other			
adjustments.....	67(a)	8	-----
-----	-----	-----	Ending
balance.....	\$1,008	\$958	=====
	=====	=====	=====

- (a) The Company has recorded a reclassification entry since December 31, 2001 of approximately \$56 million to increase its environmental liabilities, with the offset primarily being an increase to other long-term assets.

8. COMMITMENTS AND CONTINGENCIES

Financial instruments -- The Company has provided letters of credit, performance bonds, trust agreements, financial guarantees and insurance policies to support tax-exempt bonds, contracts, performance of landfill final closure and post-closure requirements, and other obligations. The Company also uses captive insurance, or insurance policies issued by a wholly-owned insurance company, the sole business of which is to issue such policies to the Company, in order to secure such obligations. In those instances where the use of captive insurance is not acceptable, the Company generally has available alternative bonding mechanisms. Because virtually no claims have been made against these financial instruments in the past, and considering

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the Company's current financial position, management does not expect that these instruments will have a material adverse effect on the Company's consolidated financial statements. The Company has not experienced any unmanageable difficulty in obtaining performance bonds or letters of credit for its current operations. However, the tragic events of September 11, 2001, as well as recently publicized financial difficulties of several large public companies, have had an impact on the financial status of a number of insurance, surety and reinsurance providers, which could cause an increase in the cost and a decrease in the availability of surety and insurance coverages available to the Company in the future. The Company has arranged for new sources of bonding capacity and continues to evaluate a number of options for further capacity increases.

For the 14 months ended January 1, 2000, the Company insured certain risks, including auto, general and workers' compensation, with Reliance National Insurance Company ("Reliance"). On June 11, 2001, the ultimate parent of Reliance, Reliance Group Holdings, Inc., filed for bankruptcy under Chapter 11 of the Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"). On October 3, 2001, Reliance was placed in liquidation by a Pennsylvania Court. The Company has determined that it will have various levels of coverage through various state insurance guarantee funds in some, but not all, of the jurisdictions where it is subject to claims that would have been covered by the Reliance insurance program. While it is not possible to predict the outcome of proceedings involving Reliance, the Company believes that because of the various insurance guarantee funds and potential recoveries from the liquidation, it is unlikely that events relating to Reliance will have a material adverse impact on the Company's financial statements.

Environmental matters -- The Company's business is intrinsically connected with the protection of the environment. As such, a significant portion of the Company's operating costs and capital expenditures could be characterized as costs of environmental protection. Such costs may increase in the future as a result of legislation or regulation. However, the Company believes that it generally 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.

For more information regarding commitments and contingencies with respect to environmental matters, see Note 7.

Litigation -- A group of companies that sold assets in exchange for common stock in March 1996 to Waste Management Holdings, Inc. ("WM Holdings"), which was acquired by the Company in July 1998 (the "WM Holdings Merger"), brought an action against the Company in March 2000 for breach of contract and fraud, among other things. The parties have agreed to resolve this dispute through arbitration, which is currently scheduled for November 2002. The extent of damages in the dispute has not yet been determined.

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

To the extent that the Company is liable for any damages in the lawsuits described above, it may be able to seek reimbursement of some of these damages from a third party. However, it is reasonably possible that if any such reimbursement is ultimately sought, the Company would not be successful in collecting such amounts, and the Company would be required to recognize an additional loss.

The Company is one of the defendants in a class action lawsuit arising from events related to its earnings announcements in July and August of 1999. On November 7, 2001, the Company announced that it had reached a settlement agreement with the plaintiff in this case, resolving all claims against it as well as claims

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

against its current and former officers and directors. The agreement provides for a payment of \$457 million to members of the class and for the Company to consent to the certification of a class for the settlement of purchasers or acquirers of the Company's securities from June 11, 1998 through November 9, 1999. The payment provided for by the settlement agreement is included in the accompanying condensed consolidated balance sheets as a component of accrued liabilities. A hearing was held April 29, 2002 at which the settlement was approved. There is currently pending before the court a motion to vacate the final approval order brought by a non-class member whose motion to intervene was disallowed by the court. The same would-be intervener, along with one other person (both former participants in WM Holdings' ERISA plans), has also filed a separate case in Washington, D.C. against the Company and others attempting to increase the recovery of a class of ERISA plan participants based on allegations related to both the events alleged in and the settlements relating to the class action against WM Holdings that was settled in 1998 and the complaint in this action.

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

On June 29, 2000, a putative class action was filed against the Company in Delaware state court by a class of former Eastern stockholders falling within the scope of the Eastern Merger Subclass described above. The plaintiffs allege that the Company stock they received in exchange for their Eastern shares was overvalued for the same reasons alleged in the consolidated class actions in Texas. The named plaintiffs in the Delaware case have excluded themselves from the Texas class action settlement and are pursuing their claim as individuals and not as a class action. The case is still at a relatively early stage, and the amount of damages, if any, cannot yet be determined.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's business is intrinsically connected with the protection of the environment, and there is the potential for the unintended or unpermitted discharge of materials into the environment. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of September 30, 2002, there were nine proceedings involving Company subsidiaries where the sanctions involved in each could potentially exceed one hundred thousand dollars. The matters involve allegations that subsidiaries (i) operated a hazardous waste incinerator in such a way that its air emissions exceeded permit limits, (ii) engaged in the importation and disposal of hazardous waste in contravention of applicable federal regulations, (iii) are responsible for remediation of landfill gas and chemical compounds required pursuant to a Unilateral Administrative Order associated with an NPL site, (iv) are responsible for late performance of work required under a Unilateral Administrative Order, (v) improperly operated a solid waste landfill and caused excess odors, (vi) improperly operated a solid waste landfill by failing to maintain required records, properly place and cover waste and adhere to proper leachate levels, (vii) violated the state's clean water act, (viii) under-reported solid waste volumes that were received at a municipal solid waste landfill, and (ix) did not comply with air regulations requiring control of emissions at a closed landfill. The Company does not believe that the fines or other penalties in these matters will, individually or in the aggregate, have a material adverse effect on the Company's financial condition or results of operations.

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

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

Other -- The Company is a party to an agreement pursuant to which it is obligated to purchase certain operating assets in Canada no later than December 2005. However, there is an option in the agreement that allows either party to cause an earlier purchase. The purchase price is based on certain calculations of the financial performance of the assets to be acquired, which will be determined at the time of purchase. In addition, the Company subcontracted certain business to the owner of the assets to be purchased. The owner has informed the Company that it believes the Company is required to repurchase the subcontracted business. The Company strongly disagrees with this position. The Company does not currently believe that the purchase or other liabilities associated with its relationship with this third party will have a material effect on its financial statements.

The Company is currently under audit by the Internal Revenue Service and from time to time is audited by other taxing authorities. The Company is fully cooperating with all audits, but plans to defend its positions vigorously. These audits are in various stages of completion. Results of the audit assessments by the taxing authorities could have a material effect on the Company's financial statements.

9. SEGMENT AND RELATED INFORMATION

The Company's one reportable segment consists of its North America solid waste ("NASW") operations. The NASW operations provide integrated waste management services consisting of collection, transfer, disposal (solid waste landfill, hazardous waste landfill and waste-to-energy facilities), recycling, independent power production plants ("IPPs"), and other miscellaneous services to commercial, industrial, municipal and residential customers throughout the United States, Puerto Rico and Canada.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has broken out its one reportable segment in the table shown below into "NASW (excluding WTI)" and "WTI," to provide more detailed information. NASW (excluding WTI) includes the Company's Eastern, Midwest, Western, Southern and CWS Groups plus its national recycling operations. WTI is the Company's sixth Group and consists of the Company's waste-to-energy facilities and its IPPs. The Company's previously reported segment that consisted of waste management services in international markets outside of North America and non-solid waste services, all of which were divested by March 31, 2002, is shown in the table below as "Other."

Summarized financial information concerning the Company's reportable segments is shown in the following table (in millions). Prior period information has been restated to conform to the current year presentation.

NASW -----			
----- NASW			
CORPORATE (EXCLUDING	WTI)	WTI	TOTAL OTHER
FUNCTIONS(A)	TOTAL	---	---

----- Three Months			
Ended: September 30,			
2002 Net operating			
revenues(b),(c).....			
\$2,710	\$186	\$2,896	\$ -
- \$ -	- \$ -	\$2,896	Income
from			
operations(d).....			
485	73	558	-- (93) 465
September 30, 2001 Net			
operating revenues(b),			
(c)..... \$2,670 \$182			
\$2,852	\$ 45	\$ -	\$ -
\$2,897 Income from			
operations(d).....			
512	78	590	(1) (474)
115 Nine Months Ended:			
September 30, 2002 Net			
operating revenues(b),			
(c)..... \$7,790 \$532			
\$8,322	\$ 8	\$ -	\$8,330
Income from			
operations(d).....			
1,364	170	1,534	(2)
(271)	1,261	September	
30, 2001 Net operating			
revenues(b),(c).....			
\$7,842	\$562	\$8,404	
\$127	\$ -	\$8,531	
Income from			
operations(d).....			
1,504	169	1,673	(17)
(756) 900			

(a) Corporate functions include the treasury, legal, information technology, tax, insurance, management of closed landfills and related insurance recoveries, centralized service center and other typical administrative functions. Corporate functions' loss from operations for the three and nine months ended September 30, 2001 includes a \$374 million charge to asset impairments and unusual items which is attributable to agreements that were reached to settle shareholder class action and shareholder derivative litigation. For discussion related to the settlement see Note 8.

(b) Other operations are net of intersegment revenue with NASW of \$1 million for the nine months ended September 30, 2002 and \$15 million and \$34 million for the three and nine months ended September 30, 2001, respectively. There are no other significant sales between reportable segments. However, WTI operations are net of intrasegment revenue with NASW (excluding WTI) of \$14 million and \$43 million for the three and nine months ended September 30, 2002, respectively, and \$13 million and \$41 million for the corresponding periods of 2001. Additionally, NASW

(excluding WTI) operations are net of intrasegment revenue with WTI of \$6 million and \$16 million for the three and nine months ended September 30, 2002, respectively, and \$6 million and \$18 million for the corresponding periods of 2001.

- (c) The Company's operating revenues tend to be somewhat lower in the winter months, primarily due to the lower volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where the Company operates also tends to decrease during the winter months. The Company's first and fourth quarter results of operations typically reflect this seasonality. In addition, particularly harsh weather conditions may result in the temporary suspension of certain of our operations.
- (d) For those items included in the determination of income from operations, the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies in the Company's Form 10-K for the year ended December 31, 2001, except as it relates to goodwill. Income from operations in 2001 included goodwill amortization of \$39 million and \$117 million for the three and nine months ended September 30, 2001, respectively, of which \$29 million and \$87 million for the three and nine months ended September 30, 2001 was in the NASW (excluding WTI) operations, \$8 million and \$23 million

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

for the three and nine months ended September 30, 2001 was in the WTI operations, and \$2 million and \$7 million for the three and nine months ended September 30, 2001 was in the corporate function. As discussed in Note 12, the Company ceased the amortization of its goodwill in conjunction with the adoption of SFAS No. 142 on January 1, 2002. In 2002, the Company's corporate functions began charging its NASW operations an expense similar to what those NASW operations' goodwill amortization would have been had the Company not been required to adopt SFAS No. 142. For the three and nine months ended September 30, 2002, this charge increased income from operations for the corporate functions by \$38 million and \$111 million, respectively, and decreased income from operations for the WTI operations by \$8 million and \$23 million, respectively, and the NASW (excluding WTI) operations by \$30 million and \$88 million, respectively.

The mix of NASW operating revenues for the three and nine months ended September 30, 2002 and 2001 is reflected in the table below. The presentation of prior period operating revenues has been conformed to the current period presentation (in millions).

	THREE MONTHS ENDED SEPTEMBER 30, 2002		NINE MONTHS ENDED SEPTEMBER 30, 2001	
	2002	2001	2002	2001
Collection.....	\$1,950	\$1,917	\$5,689	\$5,696
Landfill.....	708	720	1,997	2,064
Transfer.....	388	371	1,079	1,083
IPPs).....	201	195	576	602
Recycling and other.....	176	158	471	459
Intercompany(a).....	(527)	(509)	(1,490)	(1,500)
TOTAL.....	\$2,896	\$2,852	\$8,322	\$8,404

(a) Intercompany revenues between operations have been eliminated in the consolidated financial statements.

10. PAPER DERIVATIVES AND HEDGING ACTIVITIES

All derivative transactions are subject to the Company's risk management policy. Swap agreements expose the Company to credit risk to the extent the counterparty is unable to meet its monthly settlement commitment. The Company carefully monitors the creditworthiness of each counterparty.

The Company enters into paper swap agreements to secure margins on certain paper products to be sold from its material recovery facilities. The Company expects to achieve the margins by entering into transactions to mitigate the variability in cash flows from sales of waste paper products at floating prices, resulting in a fixed price being received from sales of such products. The Company's paper swap agreements have an average term of approximately two years with the maximum term being five years. The terms of the agreements represent the span of time over which the Company is hedging its exposure to variability in future cash flows from the sale of waste paper products. The Company accounts for these derivatives as cash flow hedges. In addition, the Company has entered into paper swap agreements with the objective of generating profits from exposure to changes in market prices of waste paper and other paper products.

As of September 30, 2002, the net fair value of the Company's paper derivatives was approximately a \$1 million net asset. As of September 30, 2002, the Company has included in accumulated other comprehensive income a net deferred loss of \$1 million, which is net of taxes, on derivative commodity financial instruments designated as cash flow hedges. The Company's long-term position is a gain, however, its current position is a loss and will require approximately \$4 million (on a pre-tax basis) of deferred loss to be reclassified as offsets to revenues over the next 12 months.

For the Company's waste paper swap agreements not designated as hedges, the Company experienced almost no earnings impact for the three months ended September 30, 2002. However, for the nine months

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ended September 30, 2002, the Company increased revenues by approximately \$3 million for waste paper swap agreements not designated as hedges.

For the three and nine months ended September 30, 2001 the Company recorded a loss of approximately \$1 million and a gain of \$5 million, respectively, related to derivative agreements with Enron North America Corp. ("Enron") as an offset to operating expenses. In the fourth quarter of 2001, the Company reclassified its year-to-date net paper swap mark-to-market adjustments to be an adjustment to revenue instead of operating expenses. On December 2, 2001, Enron declared bankruptcy under Chapter 11 of the Bankruptcy Code. Due to the uncertainty of Enron's ability to satisfy all of its financial commitments, the Company determined that all of its paper derivatives with Enron had zero fair value at December 31, 2001. In February 2002, the Company terminated its derivative instruments with Enron. The Company carries a deferred gain, net of tax, as of September 30, 2002, which is included in accumulated other comprehensive income, of approximately \$3 million related to the paper derivatives with Enron that had qualified through November 2001 as cash flow hedges. This deferred gain is being amortized into earnings as the forecasted transactions that were previously hedged actually occur and approximately \$2 million (on a pre-tax basis) is expected to be reclassified into earnings over the next twelve months.

11. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

WM Holdings ("Guarantor"), which is 100% owned by the Company ("Parent"), has fully and unconditionally guaranteed all of the senior indebtedness of the Parent, as well as the Parent's 4% convertible subordinated notes that matured and were repaid in February 2002. The Parent has fully and unconditionally guaranteed all of the senior indebtedness of WM Holdings, as well as WM Holdings' 5.75% convertible subordinated debentures due 2005. However, none of the Company's nor WM Holdings' debt is guaranteed by any of the Parent's indirect subsidiaries or WM Holdings' subsidiaries ("Non-Guarantors"). Accordingly, the following unaudited condensed consolidating balance sheet as of September 30, 2002 and the condensed consolidating balance sheet as of December 31, 2001, the unaudited condensed consolidating statements of operations for the three and nine months ended September 30, 2002 and 2001, along with the related unaudited condensed consolidating statements of cash flows for the nine months ending September 30, 2002 and 2001, have been provided below (in millions).

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEETS
 SEPTEMBER 30, 2002
 (UNAUDITED)

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

----- ASSETS	Current assets: Cash and cash equivalents.....	\$ 722	\$
-- \$ (66)	\$ -- \$ 656 Other current assets.....	-- 5 2,418	-
- 2,423	-----		
-----	722 5 2,352 -- 3,079 Property and equipment, net.....	-- --	
10,539	-- 10,539 Intercompany and investment in subsidiaries.....		
9,216	5,764 (7,657) (7,323) -- Other assets.....		
135 203	6,033 -- 6,371 -----		
-----	Total assets.....		
\$10,073	\$5,972 \$11,267 \$(7,323) \$19,989	=====	=====
-----	LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities: Current portion of long-term debt.....	\$ -- \$ 286 \$ 89 \$		
-- \$ 375	Accounts payable and other accrued liabilities.....		
162 49	3,049 -- 3,260 -----		
-----	162 335 3,138 --		
3,635	Long-term debt, less current portion.....	4,501 2,098 1,552 --	
8,151	Other liabilities.....	-- --	
-- 2,777	-- 2,777 -----		
-----	Total liabilities.....		
4,663	2,433 7,467 -- 14,563 Minority interest in subsidiaries.....	-- --	
16	-- 16 Stockholders' equity.....	5,410	
3,539	3,784 (7,323) 5,410 -----		
-----	Total liabilities and stockholders' equity.....		
\$10,073	\$5,972 \$11,267 \$(7,323) \$19,989	=====	=====

DECEMBER 31, 2001

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

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

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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2002
(UNAUDITED)

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

--	Operating				
revenues.....	\$ --	\$	--	\$	
-- \$2,896	\$ --	\$2,896	Costs and		
expenses.....	--	--			
2,431	--	2,431	-----	--	
	Income from				
operations.....	--	--			
465	--	465	-----	--	
	Other income (expense):				
Interest income (expense),					
net.....	(65)	(36)	(12)	--	(113)
Equity in subsidiaries, net of					
taxes.....	272	295	--	(567)	--
Minority					
interest.....	(1)	--	(1)	Other,	
net.....	--	--			
(1)	2	--	1	-----	--
-----	207	258	(11)	(567)	(113)
	Income				
before income taxes.....	207				
258	454	(567)	352	Provision for	
	(benefit from)			income	
taxes.....					
(24)	(14)	159	--	121	-----
	Net				
income.....					
\$231	\$272	\$ 295	\$(567)	\$ 231	====
====	=====	=====	=====	=====	

THREE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

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

--	Operating				
revenues.....	\$ --	\$	--	\$	
-- \$2,897	\$ --	\$2,897	Costs and		
expenses.....	--	--			
2,782	--	2,782	-----	--	
	Income from				
operations.....	--	--			
115	--	115	-----	--	
	Other income (expense):				
Interest income (expense),					
net.....	(67)	(43)	(7)	--	(117)
Equity in subsidiaries, net of					
taxes.....	73	100	--	(173)	--
Other,					
net.....	--	--			
1	--	1	-----	--	
--	6	57	(6)	(173)	(116)
-----	Income (loss)				
before income taxes....	6	57	109		
(173)	(1)	Provision for (benefit			
	from) income				
taxes.....					
(25)	(16)	9	--	(32)	-----
	Income before				
extraordinary item.....	31	73	100		
(173)	31	Extraordinary			
item.....	(1)	--	--		
--	(1)	-----	--		
	Net				
income.....					

\$ 30 \$ 73 \$ 100 \$(173) \$ 30 ====
==== ===== ===== =====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
 NINE MONTHS ENDED SEPTEMBER 30, 2002
 (UNAUDITED)

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

-- ----- Operating				
revenues.....	\$ --	\$		
-- \$8,330	\$ --	\$8,330	Costs and	
expenses.....	--	--		
7,069	--	7,069	-----	

Income from				
operations.....	--	--		
1,261	--	1,261	-----	

Other income				
(expense): Interest income				
(expense), net.....	(179)	(116)		
(41)	--	(336)	Equity in	
			subsidiaries, net of	
taxes.....				
699	773	--	(1,472)	--
Minority				
interest.....	--	--		
(4)	--	(4)	Other,	
net.....	--	4		
--	4	-----		

520	657	(41)	(1,472)	(336)

Income before income				
taxes.....	520	657	1,220	
(1,472)	925	Provision for (benefit		
		from) income		
taxes.....				
(66)	(42)	448	--	340

Income before				
extraordinary item and cumulative				
effect of change in accounting				
principle.....	586	699		
772	(1,472)	585	Extraordinary	
item.....	--	--	(1)	
--	(1)	Cumulative effect of change		
		in accounting		
principle.....	--	--	2	
--	2	-----		

Net				
income.....				
\$ 586	\$ 699	\$ 773	\$(1,472)	\$ 586
=====	=====	=====	=====	=====

NINE MONTHS ENDED SEPTEMBER 30, 2001
 (UNAUDITED)

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

-- ----- Operating				
revenues.....	\$ --	\$		
-- \$8,531	\$ --	\$8,531	Costs and	
expenses.....	--	--		
7,631	--	7,631	-----	

Income from				
operations.....	--	--		
900	--	900	-----	

Other income (expense):				
Interest income (expense),				
net.....	(215)	(143)	(33)	--
(391)				
Equity in subsidiaries, net of				
taxes.....				
481	571	--	(1,052)	--
Minority				
interest.....	--	--		
(3)	--	(3)	Other,	
net.....	--	--		
9	--	9	-----	

266	428	(27)	(1,052)	(385)

```

-----
Income before income
taxes..... 266 428 873
(1,052) 515 Provision for (benefit
from) income
taxes.....
(80) (53) 303 -- 170 -----
----- Income before
extraordinary item and cumulative
effect of change in accounting
principle..... 346 481
570 (1,052) 345 Extraordinary
item..... (1) -- (1)
-- (2) Cumulative effect of change
in accounting
principle..... -- -- 2 -
- 2 -----
--- Net
income.....
$ 345 $ 481 $ 571 $(1,052) $ 345
=====

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2002
(UNAUDITED)

PARENT GUARANTOR		NON-GUARANTORS		ELIMINATIONS	
CONSOLIDATED					

Cash flows from operating activities: Net					
income.....					
\$586	\$699	\$ 773	\$(1,472)	\$ 586	Equity in earnings of subsidiaries, net of taxes.... (699) (773) -- 1,472
-- Other adjustments and charges.....					
			49 (5) 897	-- 941	--
----- Net cash provided by (used in) operating activities....					
			(64) (79) 1,670	--	- 1,527
----- Cash flows from investing activities: Acquisitions of businesses, net of cash acquired.....					
-- -- (125) -- (125) Capital expenditures.....					
-- -- (914) -- (914) Proceeds from divestitures of businesses, net of cash divested, and other sales of assets.....					
-- -- 82 -- 82					
Other.....					
--	--	174	-- 174	-----	----- Net cash used in investing activities.....
--	--	(783)	-- (783)	-----	-----
Cash flows from financing activities: New borrowings.....					
498 -- -- -- 498 Debt repayments.....					
(427) (300) (54) (781) Common stock repurchases.....					
-- (561) Exercise of common stock options and warrants.....					
25 -- -- -- 25 (Increase) decrease in intercompany and investments, net.....					
494	379	(873)	--	--	-----
Net cash provided by (used in) financing activities....					
29	79	(927)	-- (819)	-----	-----
----- Effect of exchange rate changes on cash and cash equivalents.....					
--	--	1	-- 1	-----	-----
Decrease in cash and cash equivalents.....					
			(35) -- (39) -- (74)		
Cash and cash equivalents at beginning of period.....					
757	-- (27)	-- 730	-----	-----	-----
----- Cash and cash equivalents at end of period.....					
\$722	\$ --	\$ (66)	\$ --	\$ 656	====
====	=====	=====	=====	=====	=====

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

PARENT GUARANTOR		NON-GUARANTORS		ELIMINATIONS	
CONSOLIDATED					

Cash flows from operating activities: Net					
income.....					
\$345	\$481	\$ 571	\$(1,052)	\$ 345	Equity in earnings of subsidiaries, net of taxes.... (481) (571) -- 1,052
-- Other adjustments and charges.....					
			(8) (11) 1,182	-- 1,163	-----
----- Net cash provided by (used in) operating activities... (144) (101) 1,753 -- 1,508					
----- Cash flows from investing activities: Acquisitions of businesses, net of cash acquired....					
-- -- (95) -- (95) Capital expenditures.....					
-- -- (843) -- (843) Proceeds from divestitures of businesses, net of cash divested, and other sales					

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. NEW ACCOUNTING PRONOUNCEMENTS

SFAS NO. 141 AND SFAS NO. 142

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Accounting for Business Combinations ("SFAS No. 141"), and Statement of Financial Accounting Standards No. 142, Accounting for Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting and prohibits the pooling-of-interests method for business combinations initiated after June 30, 2001. According to SFAS No. 142, goodwill that arose from business combinations after June 30, 2001 cannot be amortized. In addition, SFAS No. 142 required the continuation of the amortization of goodwill and all intangible assets through December 31, 2001. The amortization of existing goodwill ceased on January 1, 2002. SFAS No. 142 requires a two-step impairment approach for goodwill. Companies must first determine whether goodwill is impaired and if so, they must value that impairment based on the amount by which the book value exceeds the estimated fair value. Companies have six months from the date they initially apply SFAS No. 142 to test goodwill for impairment and any impairment charge resulting from the initial application of the new accounting pronouncement must be classified as the cumulative effect of a change in accounting principle. Thereafter, goodwill must be tested for impairment annually and impairment losses must be presented in the operating section of the income statement unless they are associated with a discontinued operation. In those cases, any impairment losses will be included, net of tax, within the results of discontinued operations.

In accordance with the Company's adoption of SFAS No. 141, the Company utilizes the purchase method of accounting for its business combinations. In accordance with the Company's adoption of SFAS No. 142, the Company has not amortized goodwill from any acquisitions that occurred after June 30, 2001. The Company has no intangible assets, other than goodwill, that have ceased being amortized upon adoption of SFAS No. 142.

Adopting SFAS No. 141 required the Company to write-off net negative goodwill of approximately \$2 million, which was recorded as a credit to cumulative effect of change in accounting principle in the first quarter of 2002. In accordance with SFAS No. 142, goodwill is required to be tested for impairment at the reporting unit, which is generally defined as an operating segment or a component of an operating segment in certain circumstances. For the purposes of applying SFAS No. 142, the Company has identified seven reporting units, which are the six components in NASW (excluding WTI) and WTI, as described in Note 9, Segment and Related Information. The Company incurred no impairment of goodwill upon its initial adoption of SFAS No. 142. However, there can be no assurance that goodwill will not be impaired at any time in the future.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following schedule reflects the three and nine months ended September 30, 2001 adjusted net income (excluding goodwill and negative goodwill amortization) as compared to the results of operations for the three and nine months ended September 30, 2002 (in millions, except per share amounts).

	THREE MONTHS ENDED		NINE MONTHS ENDED		
	SEPTEMBER 30, 2002		SEPTEMBER 30, 2001		
Reported net income.....	\$ 231	\$ 30	\$ 586	\$ 345	
Add back: goodwill amortization, net of taxes.....	--	--	--	--	
Adjusted net income.....	\$ 31	\$ 93	\$ 586	\$ 438	=====
===== BASIC EARNINGS PER COMMON SHARE:					
Reported net income.....	\$0.38	\$0.05	\$0.95	\$0.55	
Goodwill amortization, net of taxes.....	--	--	0.05	0.15	
Adjusted net income.....	\$0.38	\$0.10	\$0.95	\$0.70	=====
===== DILUTED EARNINGS PER COMMON SHARE:					
Reported net income.....	\$0.38	\$0.05	\$0.94	\$0.55	
Goodwill amortization, net of taxes.....	--	--	0.05	0.15	
Adjusted net income.....	\$0.38	\$0.10	\$0.94	\$0.70	=====

The Company's intangible assets as of September 30, 2002 were comprised of the following (in millions):

LICENSES, COVENANTS PERMITS NOT-TO- AND CUSTOMER LISTS COMPETE OTHER TOTAL	\$128	\$ 97	\$21	\$ 246	Less
Intangible assets.....					accumulated
amortization..... (74)	(56)	(7)	(137)		
	--	\$ 54	\$ 41	\$14	\$ 109

Intangible assets are recorded at cost and amortized on a straight-line basis. Customer lists are generally amortized over five to seven years. Covenants not-to-compete are amortized over the term of the agreement, which is generally three to five years. Licenses, permits and other intangible assets are amortized over the terms of the related agreement or the Company's estimate of the useful life if there are no definite terms. Landfill operating permits are not presented above and are recognized on a combined basis with other landfill assets and amortized using the Company's landfill amortization method. The intangible asset amortization expense estimated as of December 31, 2001, for the five years following 2001 is as follows (in millions):

2002
 2003
 2004
 2005
 2006

 --

 --

-
\$34
\$30
\$22
\$13
\$7

As of September 30, 2002, the amount of goodwill attributable to WTI was approximately \$783 million. The remaining goodwill balance of approximately \$4,264 million was attributable to NASW (excluding WTI).

SFAS NO. 143

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, which applies to all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

accounting and reporting requirements for such obligations. SFAS No. 143 requires amounts initially recognized as an asset retirement obligation to be measured at fair value. The recognized asset retirement cost is capitalized as part of the cost of the asset and is depreciated over the useful life of the asset. The Company expects to adopt SFAS No. 143 beginning January 1, 2003 and to record a cumulative effect of a change in accounting principle.

SFAS No. 143 will impact the Company's accounting for its landfill operations. Costs associated with future capping activities that occur during the operating life of a landfill, which are currently recognized on an undiscounted basis over the operating life of the landfill as airspace is consumed, will be accounted for as an asset retirement obligation under SFAS No. 143, on a discounted basis. The Company expects to recognize landfill retirement obligations, which relate to capping, other closure and post-closure activities, over the operating life of a landfill as landfill airspace is consumed. These obligations will be initially measured at estimated fair value. Fair value will be measured on a present value basis, using a credit-adjusted, risk-free rate, which will be a higher rate than the risk-free rate the Company currently uses for discounting its final closure and post-closure obligations. Interest will be accreted on landfill retirement obligations using the effective interest method. Landfill retirement costs, which will be capitalized as part of the landfill asset, will be amortized using the Company's existing landfill accounting practices. The Company is addressing which of its other assets may be affected by the provisions of SFAS No. 143. The Company's management has not yet determined the pro forma, cumulative or future effects of the adoption of SFAS No. 143 on its results of operations or financial position. The adoption of SFAS No. 143 will have no effect on the Company's cash flow.

SFAS NO. 144

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), which supersedes Statement of Financial Accounting Standards No. 121. SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and extends the presentation of discontinued operations to include more divestiture transactions. SFAS No. 144 also requires that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset, or group of assets if the cash flows from those assets cannot be independently and separately identified, is not recoverable. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group, excluding interest charges. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate a company's own assumptions about its use of the asset or asset group and must factor in all available evidence. The Company adopted SFAS No. 144 on January 1, 2002. Upon initial application of SFAS No. 144, certain previously held-for-sale assets did not meet SFAS No. 144 criteria to be held-for-sale because their anticipated sale is in 2003. However, under the transition provisions of SFAS No. 144, the Company has until December 31, 2002 to either sell these assets or meet the new held-for-sale criteria to avoid reclassifying the assets to held-for-use.

SFAS NO. 145

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective for the Company beginning January 1, 2003. Upon the adoption of SFAS No. 145, the Company will reclassify

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

certain items in its prior period statements of operations to conform to the presentation required by SFAS No. 145. Under SFAS No. 145, the Company will report gains and losses on the extinguishment of debt in pre-tax earnings rather than in extraordinary items.

SFAS NO. 146

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructuring, involuntarily terminating employees, and consolidating facilities, initiated after December 31, 2002. The implementation of SFAS No. 146 will not require the restatement of previously issued financial statements. Implementation of the pronouncement will therefore have no impact on the current year financial statements of the Company. See Note 3 for discussion on the restructuring initiated by the Company in March 2002.

13. SUBSEQUENT EVENTS

In August 2002, DLJ Brand Services, Inc. ("DLJ Brand"), a holding company whose wholly owned subsidiary Brand Services, Inc. provides scaffolding services in North America, entered into a plan and agreement of merger pursuant to which DLJ Brand would be merged into an entity owned by J.P. Morgan Partners, LLC. The Company owned approximately 17% of the shares of DLJ Brand before the merger. In October 2002, the merger was completed, and the Company received approximately \$33 million in cash, a note receivable of approximately \$4 million and warrants to purchase securities in the merged entity. The Company also received approximately \$21 million for the repayment of a subordinated note that came due upon the change of control of DLJ Brand. The Company expects to record a pre-tax gain of approximately \$40 million in the fourth quarter of 2002 related to this transaction.

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

When we make statements containing projections about our accounting and finances, about our plans and objectives for the future, about our future economic performance or statements containing any other projections or estimates about our assumptions relating to these types of statements, we are making forward-looking statements. The statements usually relate to future events and anticipated revenues, earnings or other aspects of our operations or operating results. We make these statements in an effort to keep stockholders and the public informed about our business, and have based them on our current expectations about future events. You should view such statements with caution. These statements are not guarantees of future performance or events. All phases of our business are subject to uncertainties, risks and other influences, many over which we have no control. Any of these factors, either alone or taken together, could have a material adverse effect on us and could change whether any forward-looking statement ultimately turns out to be true. Additionally, we assume no obligation to update any forward-looking statements as a result of future events or developments.

Outlined below are some of the risks that we face and that could affect our business and financial statements for the remainder of 2002 and beyond. However, they are not the only risks that we face. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also impair our business.

- possible changes in our estimates of site remediation requirements, final closure and post-closure obligations, compliance and other audits and regulatory developments;
- the possible impact of regulations on our business, including the cost to comply with regulatory requirements and the potential liabilities associated with disposal operations, as well as our ability to obtain and maintain permits needed to operate our facilities;
- the effect of limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste;
- possible charges against earnings for certain shut down operations and uncompleted acquisitions or development or expansion projects;
- possible charges for asset impairments to long-lived assets resulting from changes in circumstances or future business events or decisions;
- the effects that trends toward requiring recycling, waste reduction at the source and prohibiting the disposal of certain types of wastes could have on volumes of waste going to landfills and waste-to-energy facilities;
- the effect the weather has on our quarter to quarter results, as well as the effect of extremely harsh weather on our operations;
- the effect that price fluctuations on commodity prices may have on our operating revenues;
- the outcome of litigation;
- whether or when the approval of the \$457 million class action lawsuit settlement will become final and non-appealable;
- the effect competition in our industry could have on our ability to maintain margins, including uncertainty relating to competition with governmental sources that enjoy competitive advantages from tax-exempt financing and tax revenue subsidies;
- possible diversions of management's attention and increases in operating expenses due to efforts by labor unions to organize our employees;
- possible increases in operating expenses due to fuel price increases or fuel supply shortages;
- the effects of general economic conditions, including the ability of insurers to fully or timely meet their contractual commitments and of surety companies to continue to issue surety bonds;

- possible defaults under our credit agreements if cash flows are less than we expect or capital expenditures are more than we expect and we are not able to obtain additional capital on acceptable terms, if needed; and
- possible errors or problems with our enterprise-wide software and technology systems or the deployment of our billing and accounts receivable systems.

GENERAL

Waste Management, Inc. is its industry's leading provider of integrated waste services in North America. Through our subsidiaries, we provide collection, transfer, recycling and resource recovery, and disposal services. We are also a leading developer, operator and owner of waste-to-energy facilities in the United States. Our customers include commercial, industrial, municipal and residential customers, other waste management companies and governmental entities.

Our collection services involve picking up and transporting waste from where it was generated to a disposal site. We also operate transfer stations, which are facilities located near residential and commercial collection routes where collection trucks take the solid waste that has been collected. The solid waste is then transferred via transfer trucks, barges, or rail to disposal sites. These disposal sites include landfills, which are the main depository for solid waste in North America, as well as waste-to-energy facilities. As of September 30, 2002, we owned or operated 294 solid waste landfills, five hazardous waste landfills and 16 waste-to-energy facilities. The solid waste and hazardous landfills are where solid and hazardous waste, respectively, is deposited into the ground, and the waste-to-energy facilities are where solid waste is burned to produce steam that is used to generate electricity. In addition to disposing of waste, we offer recycling services, which involve the removal of reusable materials from the waste stream for processing or resale.

We also operate methane gas recovery projects at some of our landfills, where we collect the methane gas that is generated at the landfill by decomposing waste and process it for sale where it is used to fuel electricity generators. We also rent and service portable toilet facilities, provide street sweeping services, and provide full service waste services at customers' industrial plants, known as "in-plant services." Finally, we own and operate independent power production plants that cogenerate electricity for sale to customers.

In addition to our North America solid waste ("NASW") operations, we previously reported additional operations in our WM International and Non-Solid Waste segments. All of our WM International operations and most of our Non-Solid Waste operations were sold in 2000 and 2001. Beginning in 2001, we reported a segment called "Other," comprised of our remaining non-core operations, which included our geosynthetic manufacturing and installation services and independent power production plants ("IPPs"). The geosynthetic manufacturing and installation services were sold in February 2002. In the third quarter of 2001, we reclassified all but one of our IPPs from held-for-sale to held-for-use and in the first quarter of 2002, reclassified the IPPs from the "Other" reportable segment to the Wheelabrator Technologies Inc. ("WTI") operations included in our single reportable segment, NASW.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Accounting for Landfills -- We account for certain costs at our landfills using the "units-of-consumption" method, which means we expense amounts for certain landfill costs and landfill final closure and post-closure

costs for each unit of waste as it is accepted for disposal at the landfills. This accounting method requires us to make estimates and assumptions, as described below. Any changes in our estimates are made prospectively.

Landfill Costs -- We estimate the total cost to develop each landfill site to its final capacity. This includes certain projected landfill site costs that are uncertain because they are dependent on future events that may or may not occur. These costs include amounts previously capitalized (net of accumulated airspace amortization), and future projected costs for common site costs (purchase and development costs), liner construction costs, operating construction costs, and capitalized interest costs.

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

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

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

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

These criteria are initially evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. However, our policy provides that, based on the facts and circumstances of a specific landfill, exceptions to these criteria may be permitted. Exceptions to these criteria must be approved through a landfill-specific approval process that includes the approval from the Chief Financial Officer and a review by the Audit Committee of the Board of Directors on a quarterly basis. Of the 96 landfill sites with expansions at September 30, 2002, 29 landfills required the Chief Financial Officer to approve an exception to the criteria. Approximately two-thirds of these exceptions were due to legal or community issues that could impede the expansion process, while the remaining were primarily due to permit application processes beyond the one-year limit, which in most cases were due to state-specific permitting procedures. When we include the expansion airspace in our calculations of available airspace, we also include the projected costs for development and final closure and post-closure of the expansion in the amortization basis of the landfill.

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

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

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

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

These estimates are sometimes a range of possible outcomes. In those cases, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amounts that are the low ends of the ranges in accordance with SFAS No. 5, Accounting for Contingencies, and its interpretations. Were we to use the high end of such ranges, it is reasonably possible that our potential liability would be approximately \$220 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of September 30, 2002. As used in this context, "reasonably possible" means we believe it is more than remote but less than likely.

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

occurred for the group of assets for which we can identify the projected cash flows. If the fair value of an asset is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs.

Typical indicators that an asset may be impaired include:

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

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

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

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

	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001	PERIOD TO PERIOD CHANGE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001	PERCENTAGE CHANGE FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001	PERCENTAGE CHANGE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
----- STATEMENT OF OPERATIONS: Operating				
revenues.....	\$ (1)			
--% \$(201) (2.4)% -----	Costs and expenses: Operating (exclusive of depreciation and amortization shown below).....	53	3.1	(71) (1.4)
	Selling, general and administrative.....	(7)	(1.8)	(48)
	(4.1) Depreciation and amortization.....	(41)	(11.6)	
	(110) (10.7)			
Restructuring.....	1	N/A	38	N/A
Asset impairments and unusual items.....	(357)	(100.8)	(371)	(102.5)
-----	(351)	(562)	-----	-----
Income from operations.....	350			
361 -----	Other income (expense):			
	Interest expense.....	6	4.8	
	75 17.6 Interest and other income, net.....	(2)	(25.0)	(25) (58.1)
	Minority interest.....	(1)	N/A	
(1) 33.3 -----	Income (loss) before income taxes.....	3	49	-----
410	Provision for (benefit from) income taxes.....	153	170	-----
	Income before extraordinary item and cumulative effect of changes in accounting principle....	\$ 200	\$ 240	=====

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

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2001	ENDED SEPTEMBER 30, 2002	ENDED SEPTEMBER 30, 2001
STATEMENT OF OPERATIONS: Operating				
revenues.....	100.0%	100.0%	100.0%	100.0%
Costs and expenses: Operating (exclusive of depreciation and amortization shown below).....	60.3	58.4	60.0	59.4
Selling, general and administrative.....	13.0	13.2	13.5	13.7
Depreciation and amortization.....	10.7	12.2	11.0	12.1
Restructuring.....	--	--	0.5	--
Asset impairments and unusual items.....	(0.1)	12.2	(0.1)	4.3
Income from operations.....	16.1	4.0	15.1	10.5
Other income (expense): Interest expense.....	(4.1)	(4.3)	(4.2)	(5.0)
Interest and other income, net.....	0.2	0.3	0.2	0.5
Minority interest.....	--	--	(3.9)	(4.0)
Income (loss) before income taxes.....	12.2	--	11.1	6.0
Provision for (benefit from) income taxes.....	4.2	(1.1)	4.1	2.0
Income before extraordinary item and cumulative effect of changes in accounting principle.....	8.0%	1.1%	7.0%	4.0%

OPERATING REVENUES

Revenues for the three months ended September 30, 2002 were substantially unchanged from the comparable prior year period. During this period, revenues from our NASW operations increased \$44 million, which was offset by a decrease in revenues from divestitures of non-NASW operations. Our operating revenues decreased by \$201 million, or 2.4%, for the nine months ended September 30, 2002 as compared with the corresponding prior year period. This decrease was attributable to an \$82 million decrease in revenues from our NASW operations along with a decrease in revenues of \$119 million in our non-NASW operations due to the divestiture of those operations throughout 2001 and into early 2002.

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

The mix of NASW operating revenues for the three and nine months ended September 30, 2002 and 2001 is reflected in the table below. The presentation of prior period operating revenues has been conformed to the current period presentation:

[CHART]

THREE THREE
MONTHS
MONTHS NINE
MONTHS NINE
MONTHS
ENDED ENDED
ENDED ENDED
SEPTEMBER
30,
SEPTEMBER
30,
SEPTEMBER
30,
SEPTEMBER
30, 2002
2001 2002
2001 -----

Collection		
\$1,950		
\$1,917	\$	
5,689	\$	
5,696		
Landfill	\$	
708	\$	720
1,997	\$	
2,064		
Transfer	\$	
388	\$	371
1,079	\$	
1,083	WTI	
(waste-to-		
energy and		
IPPs)	\$	201
\$ 195	\$	576
\$ 602		
Recycling		
and other	\$	
176	\$	158
471	\$	459
Intercompany		
\$ (527)	\$	
(509)		
\$(1,490)		
\$(1,500)	--	

---- Total		
\$2,896		
\$2,852	\$	
8,322	\$	
8,404		
=====		
=====		
=====		
=====		

The increase of \$44 million and decrease of \$82 million in NASW revenues for the three and nine months ended September 30, 2002, respectively, is reflected in the table below (in millions).

PERIOD TO PERIOD	PERIOD TO PERIOD	CHANGE FOR THE
CHANGE FOR THE	THREE MONTHS	NINE MONTHS
ENDED	ENDED	ENDED
SEPTEMBER 30,	SEPTEMBER 30,	2001 2002 AND
2001	-----	Price:
Commodity price.....		

\$ 34 1.2% \$ 25 0.3% Electricity

price.....	(2)	(0.1)		
	(35)	(0.4)	Fuel	
price.....	(4)			
	(0.1)	(27)	(0.3)	Other
price.....	14	0.5		
	54	0.6	-----	Total
price.....	42			
	1.5	17	0.2	
Volume.....				
(16) (0.6) (144) (1.7) -----				Internal
growth(a).....	26	0.9		
	(127)	(1.5)		
Acquisitions.....				
	21	0.7	59	0.7
Divestitures.....				
(2) (0.1) (7) (0.1) Foreign currency				
translation.....	(1)	--	(7)	
(0.1) -----				\$ 44 1.5% \$ (82) (1.0)%
	====	====	=====	====

(a) Our internal growth calculation methodology has been modified to remove the impact of differences in the comparable number of days per quarter. This change affects only the commercial and residential operations in the collection business. Our previous calculation attributed the difference related to work days between the quarter into the price change calculation. This revised methodology impacts first quarter 2002 results. First quarter internal growth results were reported as a 1.6% other price increase, which excludes the effect of commodity, electricity and fuel price impacts, and a 3.3% volume decrease. Our revised calculation modifies first quarter to be a 0.9% other price increase, excluding the effect of commodity, electricity and fuel price impacts, and a 2.6% volume decrease.

We experienced positive internal growth for the three months ended September 30, 2002 of \$26 million, or 0.9%, as compared with the same period last year. Revenue growth from price increases for the three months ended September 30, 2002 was \$42 million, or 1.5%. Revenue increased \$34 million for the three months ended September 30, 2002 due to recycling commodity increases, which were attributable to the significant increase in old corrugated cardboard ("OCC") and old newsprint ("ONP") commodity prices

beginning in the second quarter of 2002. OCC prices increased from an average of \$49 per ton for the three months ended September 30, 2001 to an average price of \$102 per ton for the three months ended September 30, 2002. Other price driven revenue increases of \$14 million, or 0.5%, for the three months ended September 30, 2002 were primarily driven by our collection business, particularly the commercial and residential operations, and includes an increase related to a disposal tax in Pennsylvania that is charged back in part to our customers, offset partially by decreased revenue due to pricing in our landfill business, particularly special waste. The decline in revenue due to volume for the three months ended September 30, 2002 can be attributed primarily to the collection and landfill businesses. These volume driven revenue decreases were principally in the eastern and western portions of the United States; however, they were partially offset by volume increases in the recycling, transfer station and waste-to-energy businesses.

Negative internal growth for the nine months ended September 30, 2002, as compared with the same period last year, was \$127 million, or 1.5%, which was substantially volume related. Revenue change due to volume declines for the nine months ended September 30, 2002, which was largely related to the commercial and industrial collection operations, was experienced throughout the Company's operations, with the exception of the southern portion of the United States, where we realized slight volume increases. Additionally, landfill revenues declined due to volume primarily in the eastern and western portions of the United States. We believe that the overall decreased volumes, particularly in the higher margin commercial and industrial collection operations, were attributable to the lagging economy and increased competition. The decrease in revenue due to lower construction activities at certain of the waste-to-energy facilities that we operate but do not own accounted for \$24 million of this overall volume decline.

Revenue increased due to pricing for the nine months ended September 30, 2002, as compared with the same period of the prior year, by \$17 million, or 0.2%. Revenue increases from commodity prices were \$25 million and were attributable to the significant increase in OCC commodity prices beginning in the second quarter of 2002. Reduced electricity rates in California and reduced diesel fuel surcharges negatively impacted the revenue change due to price for the nine months ended September 30, 2002 by \$62 million. Other revenue increases due to price of \$54 million, or 0.6%, for the nine months ended September 30, 2002 were primarily attributable to our commercial and residential collection operations, and our transfer station business. These revenue increases were offset partially by decreased revenue from price in the landfill business, particularly special waste.

Revenues increased \$21 million and \$59 million for the three and nine months ended September 30, 2002, respectively, when compared with the same periods of last year due to acquisitions of NASW business during 2002 and the full year effect of acquisitions that were completed in 2001. We also experienced a decrease in revenue of \$3 million and \$14 million for the three and nine months ended September 30, 2002, respectively, due to divestitures of NASW operations and the effect of foreign currency fluctuations related to the Canadian dollar.

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

Our operating costs and expenses include direct and indirect labor and related taxes and benefits, fuel, maintenance and repairs of equipment and facilities, tipping fees paid to third party disposal facilities and transfer stations, and accruals for future landfill final closure and post-closure costs and environmental remediation. Certain direct landfill development expenditures are capitalized and amortized over the estimated useful life of a site as capacity is consumed, and include acquisition, engineering, grading, construction, capitalized interest, and permitting costs. All indirect expenses, such as administrative salaries and general corporate overhead, are expensed in the period incurred.

Operating costs and expenses increased \$53 million, or 3.1%, and decreased \$71 million, or 1.4%, for the three and nine months ended September 30, 2002, respectively, compared to the prior year periods. As a percentage of operating revenues, operating costs and expenses were 60.3% and 60.0% for the three and nine months ended September 30, 2002, respectively, and 58.4% and 59.4% for the corresponding prior year periods.

For the three months ended September 30, 2002, costs increased as compared with the same period of the prior year due to several factors, including increases in risk management expenses, higher employee benefit costs, higher costs associated with recycling commodities, subcontractor costs, costs

tions consummated since the third quarter of 2001, and disposal costs. The increased risk management expense is driven primarily by increased workers' compensation costs. The increased costs associated with recycling commodities were due primarily to an increase in market prices paid for OCC and ONP and the rebates paid to customers as a result of the higher prices. The subcontractor cost increase is due in part to increased utilization of subcontractors for certain of our national account customers in areas where services are not provided by us and in part to increased third party transportation of waste to disposal facilities, particularly in the midwest and western portions of the United States. Contributing to the increase in disposal costs was the increased tax on disposal of waste in Pennsylvania incurred by us. Additionally, the operating costs and expenses increase reflects approximately \$19 million included in the third quarter of 2001 as an offset to environmental expenses related to the Company's recovery of amounts in connection with its claims against insurance carriers for reimbursement of environmental expenses. The increased operating costs and expenses were offset in part by the effect of divestitures in 2002.

For the nine months ended September 30, 2002, costs decreased as compared to the same period of the prior year due primarily to the effect of divestitures in 2002, reduced maintenance costs, lower fuel costs, and lower construction services at certain of the waste-to-energy facilities that we operate but do not own. The decreases have been offset somewhat by several factors, including those affecting the third quarter as discussed above. Factors affecting the nine month period include increased risk management expense, higher employee benefit costs, increased costs associated with acquisitions that have been consummated since the third quarter of 2001, subcontractor costs and increased disposal costs. Additionally, the operating costs and expenses increase reflects approximately \$19 million included in the third quarter of 2001 as an offset to environmental expenses as discussed above.

SELLING, GENERAL AND ADMINISTRATIVE

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

Selling, general and administrative expenses decreased \$7 million, or 1.8%, and \$48 million, or 4.1%, for the three and nine months ended September 30, 2002, respectively, as compared to the prior year corresponding periods. In addition, as a percentage of operating revenues, our selling, general and administrative expenses decreased from 13.2% to 13.0% for the three months ended September 30, 2001 and 2002, respectively, and decreased from 13.7% to 13.5% for the nine months ended September 30, 2001 and 2002, respectively.

The decrease in costs is primarily attributable to reduced spending on professional fees, reductions associated with the March 2002 restructuring and the effect of divestitures of operations in 2002. These reductions were offset partially by increased litigation expense and an increase in contract labor (net of capitalization) related to enterprise systems development. Cost reductions for the nine months ended September 30, 2002 as compared to the same period of 2001 were also offset by increased bad debt expense of \$16 million.

DEPRECIATION AND AMORTIZATION

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

Depreciation and amortization expense decreased \$41 million, or 11.6%, and \$110 million, or 10.7% for the three and nine months ended September 30, 2002, respectively, compared to the same three and nine month periods of 2001. As a percentage of operating revenues, depreciation and amortization expense was 10.7% and 11.0% for the three and nine months ended September 30, 2002, respectively, and 12.2% and 12.1%

for the corresponding prior periods. The decrease in depreciation and amortization expense is primarily attributable to our adoption of Statement of Financial Accounting Standards No. 142, Accounting for Goodwill and Other Intangible Assets ("SFAS No. 142"), which required that the amortization of all goodwill cease on January 1, 2002. Goodwill amortization for the three and nine months ended September 30, 2001 was \$39 million, or 1.3% of operating revenues, and \$117 million, or 1.4% of operating revenues, respectively. Excluding the effect of goodwill amortization expense in 2001, depreciation and amortization expense as a percentage of revenues decreased 0.1% and increased 0.3% from the three and nine months ended September 30, 2001, respectively, compared to the corresponding periods of 2002.

RESTRUCTURING

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

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

We recorded \$1 million and \$38 million of pre-tax charges for costs associated with the implementation of the new structure for the three and nine months ended September 30, 2002, respectively. These charges include \$36 million for employee severance and benefit costs and \$2 million related to abandoned operating lease agreements. We expect to incur an additional \$3 million of restructuring expenses in the last quarter of 2002 primarily related to the relocation of employees and the consolidation of facilities to support the new organizational structure.

Under the new structure approximately 1,900 field-level administrative and operational positions have been eliminated. Our obligation for severance payments will continue during the last quarter of 2002 and, in some cases, into 2003. As of September 30, 2002, payments of \$29 million for employee severance and benefits and for abandoned leases had been recorded against the restructuring liability that was previously established.

ASSET IMPAIRMENTS AND UNUSUAL ITEMS

During the first quarter of 2002, we recorded a net credit to asset impairments and unusual items primarily due to a reversal of a loss contract reserve of approximately \$4 million and adjustments of \$5 million for revisions of estimated losses on assets held-for-sale. These amounts were partially offset by asset impairment charges primarily relating to our 2002 restructuring efforts. During the third quarter of 2002, we recorded a net credit to asset impairments and unusual items of approximately \$3 million primarily due to the reversal of a loss contract reserve that was originally recorded in asset impairments and unusual items.

For the three and nine months ended September 30, 2001, we recorded a charge to asset impairments and unusual items expense of \$354 million and \$362 million, respectively. The expense was primarily attributable

to agreements that were reached to settle the shareholder class action lawsuit filed against us in July 1999 alleging violations of the federal securities laws and the shareholders derivative suit against our former independent auditor, which resulted in a net charge of \$374 million. Offsetting this expense, we recorded a net gain of \$24 million (comprised of the reversal of the held-for-sale impairments of \$109 million and a held-for-use impairment of \$85 million) from our re-evaluation of our business alternatives related to our IPPs during the third quarter of 2001. Based on these assessments, we decided not to sell our IPPs with the exception of one facility. Accordingly, we reclassified all but one of our IPPs from held-for-sale to held-for-use in the third quarter of 2001. Also included in asset impairments and unusual items are reversals of loss contract reserves that were determined to be in excess of current requirements and other unusual items of \$4 and \$12 million for the three and nine months ended September 30, 2001, respectively.

INTEREST EXPENSE

Interest expense decreased by \$6 million and \$75 million for the three and nine months ended September 30, 2002, respectively, as compared to the corresponding periods in 2001. The primary factor for the decrease in interest expense is the overall positive position of the Company's interest rate derivative contracts. Interest rate derivative contracts reduced interest expense by \$21 million and \$64 million for the three and nine months ended September 30, 2002, respectively, and \$16 million and \$21 million for the corresponding prior year periods. The remaining decrease in interest expense between 2002 and 2001 is primarily due to the repayment or refinancing of debt instruments throughout 2001 and into 2002 at lower interest rates.

PROVISION FOR (BENEFIT FROM) INCOME TAXES

We recorded a provision for income taxes of \$121 million and \$340 million for the three and nine months ended September 30, 2002, respectively, and a \$32 million benefit from income taxes and a \$170 million provision for income taxes for the corresponding periods of 2001. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and nine months ended September 30, 2002 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. In addition, we recognized a tax benefit of approximately \$12 million in the third quarter of 2002 due to the anticipated capital gain from a fourth quarter 2002 sale which enables the Company to utilize a previously fully reserved capital loss that arose from a divestiture that occurred earlier in 2002. The remaining benefit will be recognized in the fourth quarter. For the three and nine months ended September 30, 2001, the difference is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles and non-deductible costs associated with the impairment and divestiture of certain businesses. Additionally, in the second quarter of 2001, scheduled Canadian federal and provincial tax rate reductions resulted in a tax benefit of \$42 million, which was offset in part by a tax expense of \$30 million related to our plan to repatriate certain Canadian capital and earnings previously deemed permanently invested in Canada.

EXTRAORDINARY ITEMS

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

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

On July 17, 1998, we issued \$600 million of 6 1/8% mandatorily tendered senior notes, due July 15, 2011. The notes were subject to certain mandatory tender features as described in the indenture, which allowed us to purchase all of the outstanding notes on July 15, 2001. We used available cash on hand along with funds from

the Company's credit facility to purchase the notes in July 2001. During the third quarter of 2001, we recorded an extraordinary loss of approximately \$1 million, net of taxes, for the retirement of this debt.

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

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

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

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of our cash balances and cash flows for the nine months ended September 30, 2002 and 2001 (in millions):

NINE MONTHS ENDED SEPTEMBER 30, ----		----- 2002 2001 -----	
Cash and cash equivalents at the end of the period.....	\$ 656	\$ 75	
===== Cash provided by operating activities.....	\$1,527	\$1,508	===== ===== Cash used in investing activities.....
\$ (783)	\$ (787)	===== ===== Cash used in financing activities.....	
\$ (819)	\$ (738)	===== =====	

We generated cash flows from operations of \$1.5 billion for the nine months ended September 30, 2002. During that period, we spent \$783 million for investing activities, which was comprised of capital expenditures of \$914 million and acquisitions of businesses of \$125 million, offset by proceeds from sales of assets and cash generated from other investing activities of \$256 million. In addition, we used \$819 million for financing activities, which included \$561 million spent to repurchase 21.3 million shares under our stock buyback program, \$283 million of net debt repayments and \$25 million in proceeds from exercises of common stock options and warrants.

For the nine months ended September 30, 2001, we generated cash flows from operations of approximately \$1.5 billion. We used \$787 million for investing activities during the nine months ended September 30, 2001. Capital expenditures of \$843 million were included in our investing activities for the nine months ended September 30, 2001 along with acquisitions of solid waste businesses of \$95 million offset by proceeds from sales of assets and other investing activities of \$151 million. In addition, we used \$738 million for financing activities which is primarily comprised of \$765 million of net debt repayments, offset by proceeds of \$27 million from exercises of common stock options and warrants and other financing activities.

The Company operates in a capital intensive business and continuing access to various financing sources is vital to our operations. In the past, we have been successful in obtaining financing from a variety of sources on terms we consider attractive. Based on several key factors we believe are considered by credit rating agencies and financial markets to be important in determining our future access to financing, we expect to continue to maintain access to capital sources in the future. These factors include:

- the essential nature of the services we provide and our large and diverse customer base;
- our ability to generate strong and consistent cash flows;
- our asset base; and

- our commitment to maintaining a moderate financial profile and disciplined capital allocation.

Our strategy is to meet our capital needs and contractual obligations first from internally generated funds. We also have bank borrowings available for our capital needs and contractual obligations and, when appropriate, will obtain financing from issuing debt or common stock.

As of September 30, 2002, we had a \$650 million syndicated revolving credit facility (the "Three Year Revolver"), and a \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). No balances were outstanding under the Company's revolving credit facilities as of December 31, 2001 or September 30, 2002. The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of September 30, 2002, we had letters of credit in the aggregate amount of approximately \$1,600 million (of which approximately \$1,490 million are issued under the revolving credit facilities) that generally have terms allowing automatic renewal after a year. At September 30, 2002, we had unused and available credit capacity under these facilities of approximately \$910 million.

The financial covenants we are required to maintain under our credit facilities include (i) an interest coverage ratio; (ii) total debt to EBITDA and; (iii) minimum net worth. The interest coverage ratio requires that at the end of any fiscal quarter we will not permit the ratio of (A) our consolidated net income plus interest expense and income taxes ("EBIT") for the four fiscal quarters then ending to (B) consolidated total interest expense for such period to be less than 2.5 to 1 for quarters ending on or before December 31, 2002 and 3 to 1 thereafter. The total debt to EBITDA covenant requires that at the end of any fiscal quarter, we will not permit the ratio of (A) all indebtedness and certain contingent liabilities such as financial guarantees to (B) EBIT plus depreciation and amortization expense ("EBITDA") for the four fiscal quarters then ending to exceed 3 to 1. Our minimum net worth covenant requires that we will not allow the sum of stockholders' equity to be less than \$3.5 billion plus 75% of our cumulative consolidated net income for each fiscal quarter, beginning with the first fiscal quarter ended March 31, 2001. At September 30, 2002, we are in compliance with all covenants under our credit facilities.

We manage our debt portfolio by using interest rate derivatives. Our position of fixed and floating rate debt is approximately 65% fixed and 35% floating at September 30, 2002. In addition, we periodically enter into financing transactions to secure the then current market interest rate in anticipation of senior debt issuances.

We currently intend to refinance certain of our senior notes that mature in the fourth quarter with a new senior note issuance. In anticipation of the issuance, we entered into a hedging agreement during the second quarter of 2002 to secure the underlying treasury rates. These hedging agreements will be settled concurrently with the senior note issuance. If we had settled this agreement on October 28, 2002, we would have paid approximately \$50 million to the counterparties, however, the fair values may fluctuate until settlement actually occurs. To offset this anticipated cash payment, we plan to terminate several interest rate swap agreements with favorable fair value positions in the fourth quarter of 2002. The anticipated net cash settlement of the interest rate financing agreement and interest rate swap agreement terminations will be reflected within operating activities in our consolidated statement of cash flows. As of October 29, 2002, we have received cash of \$27 million for fourth quarter 2002 terminations of interest rate swap agreements.

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

Additionally, through September 30, 2002 we have issued industrial revenue bonds that are primarily used in the construction of various facilities. Proceeds of the financing arrangements are deposited into trust funds upon receipt and we do not have the ability to utilize the funds in regular operating activities. Therefore, the funds are treated as non-cash investing and financing activities in the cash flow statement.

We believe that our available short-term and long-term capital resources are sufficient to fund our capital expenditure and working capital requirements, scheduled debt payments, interest, income tax and other

obligations, acquisitions and our share repurchases that are described below. Our capital requirements include (i) capital expenditures for construction and expansion of landfill sites, as well as new trucks and equipment for collection operations, (ii) refurbishments and improvements at waste-to-energy facilities and (iii) business acquisitions. We currently expect to spend approximately \$300 million for capital expenditures and approximately \$60 million for the purchases of businesses during the final quarter of 2002.

We have \$350 million of 6.5% senior notes due December 15, 2002. We also have \$450 million of 7.1% senior notes due August 1, 2026 that are subject to early redemption on August 1, 2003 at the option of the holder. We have classified these borrowings as long-term at September 30, 2002 and December 31, 2001 based upon our ability to use our revolving credit facilities, which are both long-term, to refinance these borrowings at their respective maturity or repayment date. We intend to pursue other sources of long-term financing to refinance the borrowings; however, in the event other sources of long-term financing are not available, we intend to use our revolving credit facilities.

In February 2002 we announced that our Board of Directors had approved a stock buy back program for up to \$1 billion in annual repurchases for each of the next three years. The purchases will be made in either open market or privately negotiated transactions primarily using cash flows from operations.

In March 2002, we entered into an accelerated stock repurchase master agreement to facilitate the repurchase of shares of our common stock under the stock buy back program we announced in February 2002. In the first quarter of 2002, we entered into a transaction to purchase stock under the agreement, purchasing approximately 10.9 million shares at \$27.46 per share for a total of approximately \$300 million. We accounted for the initial payment as a purchase of treasury stock and classified the future settlement with the counterparty as an equity instrument because we had the option under the agreement to settle our obligations, if we had any obligation, in shares of our common stock.

The weighted average daily market price of our stock during the valuation period times the number of shares we initially purchased was approximately \$18 million less than the approximately \$300 million we paid for the repurchase. Pursuant to the terms of the agreement, the counterparty paid us this difference of approximately \$18 million at the end of the valuation period, which occurred during the third quarter of 2002, to settle the agreement. We accounted for the cash receipt as an adjustment to the carrying value of treasury stock and have therefore included it in common stock repurchases within financing activities in the accompanying condensed consolidated statement of cash flows.

We expect to enter into other such accelerated purchase programs similar to the program entered into in the first quarter of 2002. We have also engaged in open market purchases of our common stock during those periods when, according to Company policy, there is an open trading window. During 2002, excluding the transaction under the accelerated stock repurchase master agreement, we have repurchased approximately 10.4 million shares for a total of approximately \$279 million. As previously announced, our intention is to repurchase up to \$1 billion this year.

In November 2001, we announced that we had entered into an agreement to settle the consolidated class action lawsuit filed against us in July 1999 alleging violations of the federal securities laws by payment of \$457 million to the class members. We expect our net cash outflow, after considering insurance, tax deductions and related settlement costs, to be approximately \$230 to \$240 million. The Court approved the settlement in April 2002; however, there is currently a motion to vacate pending before the Court. If the Court denies the motion, a thirty day appeal period will begin. If an appeal is filed, the judgment will not become final until all appeals are exhausted or dismissed. We do not have to pay the settlement until the judgment is final. However, our settlement fund began to accrue interest, at the Federal Funds rate, during the second quarter of 2002. We currently expect that we will fund the settlement in the first half of 2003.

SPECIAL PURPOSE ENTITIES

On June 30, 2000, two limited liability companies ("LLCs") were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we operate under an agreement with the owner. John Hancock Life Insurance Company ("Hancock") has a 99.5% ownership in one of the LLCs.

The second LLC is 99.5% collectively owned by Hancock and the CIT Group ("CIT"). We have a 0.5% interest in both LLCs. Hancock and CIT made an initial investment of approximately \$167 million in the LLCs. The LLCs used these proceeds to purchase the three waste-to-energy facilities that we operate and assumed the seller's indebtedness related to these facilities. Under the LLC agreements the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all the members of the LLCs to dissolve the LLCs, (ii) December 31, 2063, (iii) the entry of a decree of judicial dissolution under the Delaware Limited Liability Company Act, or (iv) the LLCs cease to own any interest in these waste-to-energy facilities. Additionally, income, losses and cash flows are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, the amounts will be allocated 20% to Hancock and CIT and 80% to us. We do not expect Hancock and CIT to achieve the targeted returns in 2002 or at any time during the initial base term of the lease. We account for the underlying leases as operating leases. As of September 30, 2002, the remaining aggregate lease commitments related to these waste-to-energy facilities are \$374 million.

Under the LLC agreements, if we exercise certain renewal options under the leases, we will be required to make capital contributions to the LLCs for the difference, if any, between fair market rents and the scheduled renewal rents. We are required under certain circumstances to make capital contributions to the LLCs in the amount of the difference between the stipulated loss amounts and termination values under the LLC agreements to the extent they are different from the underlying lease agreements. We believe that the occurrence of these circumstances is remote.

We are the manager of the LLCs but there are significant limitations on the powers of the manager under the LLC agreements. Accordingly, we account for our interest in the LLCs under the equity method of accounting. These investments have a carrying value of approximately \$1 million at both September 30, 2002 and December 31, 2001. If we were required to consolidate the LLCs, we would record approximately \$418 million in assets, and \$201 million of debt as of September 30, 2002. The remaining balance that would be recorded would primarily be minority interest. There would be no material net impact to our results of operations if we consolidated the LLCs instead of accounting for them under the equity method.

ACCOUNTING FOR STOCK OPTIONS

We account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as amended, under which no compensation cost for stock options is recognized when granted with an exercise price equal to fair value. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), establishes accounting and annual disclosure requirements for options granted after 1995 using a fair-value-based method of accounting. As of September 30, 2002, we had approximately 47 million stock options and warrants outstanding. The weighted average fair value per share of stock options and warrants granted during the three and nine months ended September 30, 2002 was \$8.35 and \$9.22, respectively. This value is estimated using the Black-Scholes option-pricing model, a formula that calculates an assumed value of stock options based on appreciation and interest assumptions. The fair value calculation using Black-Scholes is not necessarily indicative of the actual value of a stock option.

The following schedule reflects the impact of the recognition provisions of SFAS No. 123 on net income and earnings per common share for the three and nine months ended September 30, 2002 and 2001 (in millions, except per share amounts).

	THREE MONTHS ENDED		NINE MONTHS ENDED		ENDED SEPTEMBER	
	30, SEPTEMBER 30,		-----		-----	
	2002	2001	2002	2001	-----	-----
	Reported net					
income.....	\$ 231	\$ 30	\$ 586	\$ 345	Less: compensation	
					expense per SFAS No. 123, net of tax..... 20	
	21	56	63	-----	-----	Adjusted net
income.....	\$ 211	\$ 9	\$ 530	\$ 282	=====	=====
	BASIC EARNINGS PER COMMON SHARE: Reported net					
income.....	\$0.38	\$0.05	\$0.95	\$0.55	Less: compensation	
					expense per SFAS No. 123, net of tax..... 0.03	
	0.03	0.09	0.10	-----	-----	Adjusted net
income.....	\$0.35	\$0.02	\$0.86	\$0.45	=====	=====
	===== DILUTED EARNINGS PER COMMON SHARE:					
	Reported net					
income.....	\$0.38	\$0.05	\$0.94	\$0.55	Less: compensation	
					expense per SFAS No. 123, net of tax..... 0.03	
	0.03	0.09	0.10	-----	-----	Adjusted net
income.....	\$0.35	\$0.02	\$0.85	\$0.45	=====	=====
	=====					

RECENT DEVELOPMENTS

In August 2002, DLJ Brand Services, Inc. ("DLJ Brand"), a holding company whose wholly owned subsidiary Brand Services, Inc. provides scaffolding services in North America, entered into a plan and agreement of merger pursuant to which DLJ Brand would be merged into an entity owned by J.P. Morgan Partners, LLC. We owned approximately 17% of the shares of DLJ Brand before the merger. In October 2002, the merger was completed, and we received approximately \$33 million in cash, a note receivable of approximately \$4 million and warrants to purchase securities in the merged entity. We also received approximately \$21 million for the repayment of a subordinated note that came due upon the change of control of DLJ Brand. We expect to record a pre-tax gain of approximately \$40 million in the fourth quarter of 2002 related to this transaction.

SEASONALITY AND INFLATION

Our operating revenues tend to be somewhat lower in the winter months, primarily due to the lower volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to decrease during the winter months. Our first and fourth quarter results of operations typically reflect this seasonality. In addition, particularly harsh weather conditions may result in the temporary suspension of certain of our operations.

We believe that inflation has not had, and is not expected to have, any material adverse effect on the results of our operations in the near future.

NEW ACCOUNTING PRONOUNCEMENTS

SFAS NO. 141 AND SFAS NO. 142

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Accounting for Business Combinations ("SFAS No. 141"), and SFAS No. 142. SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting and prohibits the pooling-of-interests method for business combinations initiated after June 30, 2001. According to SFAS No. 142, goodwill that arose from purchases after June 30, 2001 cannot be amortized. In addition, SFAS No. 142 required the continuation of the amortization of goodwill and all intangible assets through

December 31, 2001. The amortization of existing goodwill ceased on January 1, 2002. After January 1, 2002, SFAS No. 142 requires a two-step impairment approach for goodwill. Companies must first determine whether goodwill is impaired and if so, they must value that impairment based on the amount by which the book value exceeds the estimated fair value. Companies have six months from the date they initially apply SFAS No. 142 to test goodwill for impairment and any impairment charge resulting from the initial application of the new accounting pronouncement must be classified as the cumulative effect of a change in accounting principle. Thereafter, goodwill must be tested for impairment annually and impairment losses must be presented in the operating section of the income statement unless they are associated with a discontinued operation. In those cases, any impairment losses will be included, net of tax, within the results of discontinued operations.

In accordance with our adoption of SFAS No. 141, we will continue to use the purchase method of accounting for our business combinations. In accordance with our adoption of SFAS No. 142, we have not amortized goodwill from any acquisitions that occurred after June 30, 2001. We have no intangible assets, other than goodwill, that have ceased being amortized upon adoption of SFAS No. 142.

Adopting SFAS No. 141 required us to write-off net negative goodwill of approximately \$2 million, which was recorded as a credit to cumulative effect of change in accounting principle in the first quarter of 2002. In accordance with SFAS No. 142, goodwill is required to be tested for impairment at the reporting unit, which is generally defined as an operating segment or a component of an operating segment in certain circumstances. For the purposes of applying SFAS No. 142, we have identified seven reporting units, which are the six components of our NASW (excluding WTI) and WTI, as described in Note 9, "Segment and Related Information" to the financial statements included herein. We incurred no impairment of goodwill upon our initial adoption of SFAS No. 142. However, there can be no assurance that goodwill will not be impaired at any time in the future.

The following schedule reflects the three and nine months ended September 30, 2001 adjusted net income (excluding goodwill and negative goodwill amortization) as compared to the results of operations for the three and nine months ended September 30, 2002 (in millions, except per share amounts).

	THREE MONTHS ENDED		NINE MONTHS ENDED		ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,		-----	
	2002	2001	2002	2001	-----	-----
income.....						
\$ 231 \$ 30 \$ 586 \$ 345						
Add back: goodwill amortization, net of taxes.....	--	--				
31 -- 93						
						Reported net
income.....						
\$ 231 \$ 61 \$ 586 \$ 438						
===== BASIC EARNINGS PER COMMON SHARE:						
Reported net						
income.....						
\$0.38 \$0.05 \$0.95 \$0.55						
Goodwill amortization, net of taxes.....	--	--				
0.05 -- 0.15						
Adjusted net						
income.....						
\$0.38 \$0.10 \$0.95 \$0.70						
===== DILUTED EARNINGS PER COMMON SHARE:						
Reported net						
income.....						
\$0.38 \$0.05 \$0.94 \$0.55						
Goodwill amortization, net of taxes.....	--	--				
0.05 -- 0.15						
Adjusted net						
income.....						
\$0.38 \$0.10 \$0.94 \$0.70						
=====						

Our intangible assets as of September 30, 2002 were comprised of the following (in millions):

COVENANTS LICENSES, CUSTOMER NOT- TO- PERMITS LISTS COMPETE AND OTHER TOTAL -----									
----- Intangible assets.....	\$128	\$ 97	\$21	\$ 246	Less				
accumulated									
amortization..... (74)	(56)	(7)	(137)	-----					
	\$ 54	\$ 41	\$14	\$ 109	====	====	===		
				=====					

Intangible assets are recorded at cost and amortized on a straight-line basis. Customer lists are generally amortized over five to seven years. Covenants not-to-compete are amortized over the term of the agreement, which is generally three to five years. Licenses, permits and other intangible assets are amortized over the terms of the related agreement or the Company's estimate of the useful life if there are no definite terms. Landfill operating permits are not presented above and are recognized on a combined basis with other landfill assets and amortized using our landfill amortization method. The intangible asset amortization expense estimated as of December 31, 2001, for the five years following 2001 is as follows (in millions):

2002
2003
2004
2005
2006
- -

- -

- -

\$34
\$30
\$22
\$13
\$7

As of September 30, 2002, the amount of goodwill attributable to WTI was approximately \$783 million. The remaining goodwill balance of approximately \$4,264 million was attributable to NASW (excluding WTI).

SFAS NO. 143

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"). SFAS No. 143 applies to all legally enforceable obligations associated with the retirement of tangible long-lived assets and provides the accounting and reporting requirements for such obligations. SFAS No. 143 requires amounts initially recognized as an asset retirement obligation to be measured at fair value. The recognized asset retirement cost is capitalized as part of the cost of the asset and is depreciated over the useful life of the asset. We expect to adopt SFAS No. 143 beginning January 1, 2003 and to record a cumulative effect of a change in accounting principle.

SFAS No. 143 will impact our accounting for our landfill operations. Costs associated with future capping activities that occur during the operating life of a landfill, which are currently recognized on an undiscounted basis over the operating life of the landfill as airspace is consumed, will be accounted for as an asset retirement obligation under SFAS No. 143, on a discounted basis. We expect to recognize landfill retirement obligations, which relate to capping and other closure and post-closure activities, over the operating life of a landfill as landfill airspace is consumed and the obligation is incurred. These obligations will be initially measured at estimated fair value. Fair value will be measured on a present value basis, using a credit-adjusted, risk-free rate, which will be a higher rate than the risk-free rate we currently use for discounting final closure and post-closure obligations. Interest will be accreted on landfill retirement obligations using the effective interest method. Landfill retirement costs, which will be capitalized as part of the landfill

asset, will be amortized using our existing landfill accounting practices. We are addressing which of our other assets may be affected by the provisions of SFAS No. 143. Our management has not yet determined the pro forma, cumulative or future effects of the adoption of SFAS No. 143 on our results of operations or financial position. The adoption of SFAS No. 143 will have no effect on our cash flow.

SFAS NO. 144

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Asset ("SFAS No. 144"), which supersedes Statement of Financial Accounting Standards No. 121. SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly

acquired, and extends the presentation of discontinued operations to include more divestiture transactions. SFAS No. 144 also requires that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset, or group of assets if the cash flows from those assets cannot be independently and separately identified, is not recoverable. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group, excluding interest charges. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate the entity's own assumptions about its use of the asset or asset group and must factor in all available evidence. We adopted SFAS No. 144 on January 1, 2002. Upon initial application of SFAS No. 144, certain previously held-for-sale assets did not meet SFAS No. 144 criteria to be held-for-sale because their anticipated sale is in 2003. However, under the transition provisions of SFAS No. 144, we have until December 31, 2002 to either sell these assets or meet the new held-for-sale criteria to avoid reclassifying the assets to held-for-use.

SFAS NO. 145

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS No. 145"). SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective for us beginning January 1, 2003. Upon the adoption of SFAS No. 145, we will reclassify certain items in our prior period statements of operations to conform to the presentation required by SFAS No. 145. Under SFAS No. 145, we will report gains and losses on the extinguishment of debt in pre-tax earnings rather than in extraordinary items.

SFAS NO. 146

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructurings, involuntarily terminating employees, and consolidating facilities initiated after December 31, 2002. The implementation of SFAS No. 146 will not require the restatement of previously issued financial statements. Implementation of the pronouncement will therefore have no impact on our current year financial statements. See Note 3 to the condensed consolidated financial statements for discussion on the restructuring we initiated in March 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer, Chief Administrative Officer and Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer, Chief Administrative Officer and Chief Accounting Officer, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls and procedures or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II.

ITEM 1. LEGAL PROCEEDINGS.

Information regarding our legal proceedings can be found under the "Litigation" section of Note 8, Commitments and Contingencies, to the condensed consolidated financial statements.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits:

EXHIBIT NO.	DESCRIPTION
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-	-----
---	12 --
Computation	of Ratio
of	of
Earnings	to Fixed
to Fixed	Charges.

(b) Reports on Form 8-K:

On August 13, 2002, the Company filed a Current Report on Form 8-K, to state that the Company submitted to the Securities and Exchange Commission the Statements under Oath of Principal Executive Officer and Principal Financial Officer in accordance with the Commission's June 27, 2002 Order (File No. 4-460) requiring the filing of sworn statements pursuant to Section 21(a)(1) of the Securities and Exchange Act of 1934, as amended.

SIGNATURES

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

WASTE MANAGEMENT, INC.

By: /s/ WILLIAM L. TRUBECK

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

WASTE MANAGEMENT, INC.

By: /s/ ROBERT G. SIMPSON

Robert G. Simpson
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 1, 2002

CERTIFICATIONS

I, A. Maurice Myers, certify that:

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

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

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

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

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

By: /s/ A. MAURICE MYERS

A. Maurice Myers
President and Chief Executive
Officer

Date: November 1, 2002

I, William L. Trubeck, certify that:

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

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

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

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

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

By: /s/ WILLIAM L. TRUBECK

William L. Trubeck
Executive Vice President and
Chief Administrative Officer

Date: November 1, 2002

EXHIBIT
NO.
DESCRIPTION

----- 12 -----
-

Computation
of Ratio
of
Earnings
to Fixed
Charges.

WASTE MANAGEMENT, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (IN MILLIONS, EXCEPT RATIOS)
 (UNAUDITED)

NINE MONTHS ENDED SEPTEMBER 30, -----	2001	2002
Income before income taxes, extraordinary items, cumulative effect of changes in accounting principle, undistributed earnings from equity method investees and minority	\$ 929	\$ 518
interests.....		
Fixed charges deducted from income: Interest		
expense.....	350	425
Implicit interest in		
rents.....	45	47
Earnings available for fixed charges.....	\$1,324	\$990
Interest		
expense.....	\$ 350	
Capitalized		
interest.....	14	13
Implicit interest in		
rents.....	45	47
Total fixed charges.....	\$	
Ratio of earnings to fixed charges.....	3.2	2.0