

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, 1999

OR

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

For the Transition Period from to

COMMISSION FILE NUMBER 1-12154

WASTE MANAGEMENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

The number of shares of Common Stock, \$.01 par value, of the registrant outstanding at November 9, 1999, was 619,629,770 (excluding 7,892,612 shares held in the Waste Management, Inc. Employee Stock Benefit Trust and treasury shares of 73,709).

## PART I.

## ITEM 1. FINANCIAL STATEMENTS.

## WASTE MANAGEMENT, INC.

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

## ASSETS

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
Current assets:		
Cash and cash equivalents.....	\$ 221,862	\$ 86,873
Receivables, net.....	1,934,598	2,385,911
Parts and supplies.....	90,065	128,254
Deferred income taxes.....	287,191	237,616
Costs and estimated earnings in excess of billings on uncompleted contracts.....	26,072	127,975
Prepaid expenses and other.....	164,963	168,163
Net assets held for sale.....	2,072,527	746,605
	-----	-----
Total current assets.....	4,797,278	3,881,397
Property and equipment, net.....	10,389,877	11,637,739
Excess of cost over net assets of acquired businesses, net.....	5,317,151	6,069,098
Other intangible assets, net.....	188,211	181,226
Other assets.....	732,497	945,738
	-----	-----
Total assets.....	\$21,425,014	\$22,715,198
	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 1,097,881	\$ 1,040,601
Accrued liabilities.....	1,697,708	2,287,543
Deferred revenues.....	398,015	381,780
Current maturities of long-term debt.....	2,689,698	583,742
	-----	-----
Total current liabilities.....	5,883,302	4,293,666
Long-term debt, less current maturities.....	8,713,546	11,114,201
Deferred income taxes.....	463,882	470,107
Environmental liabilities.....	830,090	971,507
Other liabilities.....	974,151	1,381,145
	-----	-----
Total liabilities.....	16,864,971	18,230,626
	-----	-----
Minority interest in subsidiaries.....	6,995	112,076
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued.....	--	--
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 627,513,627 and 608,307,531 shares issued, respectively.....	6,275	6,083
Additional paid-in capital.....	4,452,962	4,091,525
Retained earnings.....	777,485	1,066,506
Accumulated other comprehensive income.....	(527,851)	(420,804)
Treasury stock at cost, 73,709 and 63,950 shares, respectively.....	(3,890)	(2,821)
Employee stock benefit trust at market, 7,892,612 shares.....	(151,933)	(367,993)
	-----	-----
Total stockholders' equity.....	4,553,048	4,372,496
	-----	-----
Total liabilities and stockholders' equity.....	\$21,425,014	\$22,715,198
	=====	=====

The accompanying notes are an integral part of these condensed consolidated

financial statements.

## WASTE MANAGEMENT, INC.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Operating revenues.....	\$ 3,395,052	\$ 3,237,701	\$9,790,462	\$9,393,165
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	2,584,341	1,857,300	6,110,317	5,496,144
General and administrative.....	765,187	310,927	1,309,829	1,049,994
Depreciation and amortization.....	452,970	381,381	1,202,735	1,125,046
Merger and acquisition related costs.....	31,568	1,564,164	111,263	1,579,127
Asset impairments and unusual items.....	680,284	666,952	700,034	666,952
Loss from continuing operations held for sale, net of minority interest.....	--	2,721	--	151
	4,514,350	4,783,445	9,434,178	9,917,414
Income (loss) from operations.....	(1,119,298)	(1,545,744)	356,284	(524,249)
Other income (expense):				
Interest expense.....	(188,634)	(174,262)	(549,702)	(503,347)
Interest income.....	20,341	7,256	28,823	21,760
Minority interest.....	(4,697)	23,868	(17,706)	(14,298)
Other income.....	8,691	12,528	39,268	122,960
	(164,299)	(130,610)	(499,317)	(372,925)
Loss before income taxes and extraordinary item.....	(1,283,597)	(1,676,354)	(143,033)	(897,174)
Provision for (benefit from) income taxes.....	(335,824)	(417,881)	139,790	(66,887)
Loss before extraordinary item.....	(947,773)	(1,258,473)	(282,823)	(830,287)
Extraordinary loss on refinancing of debt, net of tax benefit of \$2,600.....	--	--	--	(3,900)
Net loss.....	\$ (947,773)	\$ (1,258,473)	\$ (282,823)	\$ (834,187)
Basic earnings per common share:				
Loss before extraordinary item.....	\$ (1.53)	\$ (2.11)	\$ (0.46)	\$ (1.44)
Extraordinary item.....	--	--	--	--
Net loss.....	\$ (1.53)	\$ (2.11)	\$ (0.46)	\$ (1.44)
Diluted earnings per common share:				
Loss before extraordinary item.....	\$ (1.53)	\$ (2.11)	\$ (0.46)	\$ (1.44)
Extraordinary item.....	--	--	--	--
Net loss.....	\$ (1.53)	\$ (2.11)	\$ (0.46)	\$ (1.44)
Weighted average number of common shares outstanding.....	619,105	595,506	610,857	579,272
Weighted average number of common and dilutive potential common shares outstanding.....	619,105	595,506	610,857	579,272

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

## WASTE MANAGEMENT, INC.

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

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----	ACCUMULATED OTHER COMPREHENSIVE INCOME -----	TREASURY STOCK -----	EMPLOYEE STOCK BENEFIT TRUST -----
Balance, December 31, 1998....	\$6,083	\$4,091,525	\$1,066,506	\$(420,804)	\$(2,821)	\$(367,993)
Common stock options and warrants exercised, including tax benefits...	89	255,495	--	--	--	--
Common stock issued for acquisitions.....	5	21,268	--	--	--	--
Foreign currency translation adjustment.....	--	--	--	(41,203)	--	--
Adjustment of employee stock benefit trust to market value.....	--	(216,060)	--	--	--	216,060
Adjustment for minimum pension liability.....	--	--	--	(65,844)	--	--
Common stock issued for conversion of subordinated debt.....	90	260,588	--	--	--	--
Dividends.....	--	--	(6,198)	--	--	--
Other.....	8	40,146	--	--	(1,069)	--
Net loss.....	--	--	(282,823)	--	--	--
	-----	-----	-----	-----	-----	-----
Balance, September 30, 1999...	\$6,275	\$4,452,962	\$ 777,485	\$(527,851)	\$(3,890)	\$(151,933)
	=====	=====	=====	=====	=====	=====

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

## WASTE MANAGEMENT, INC.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	----- 1999 -----	1998 -----
Cash flows from operating activities:		
Net loss.....	\$ (282,823)	\$ (834,187)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization.....	1,202,735	1,125,046
Provision for doubtful accounts.....	171,438	27,822
Deferred income taxes.....	110,939	(500,277)
Minority interest in subsidiaries.....	17,706	14,298
Gain on sale of assets.....	(6,486)	(78,751)
Effect of merger and acquisition related costs, asset impairments and unusual items.....	602,684	1,443,800
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables.....	(121,924)	(197,678)
Prepaid expenses and other.....	97,329	(36,611)
Other assets.....	29,393	99,351
Accounts payable and accrued liabilities.....	(285,945)	316,982
Deferred revenues and other liabilities.....	(264,819)	14,649
Other, net.....	22,203	(72,754)
	-----	-----
Net cash provided by operating activities.....	1,292,430	1,321,690
	-----	-----
Cash flows from investing activities:		
Short-term investments.....	(24,461)	58,323
Acquisitions of businesses, net of cash acquired.....	(1,181,832)	(1,735,835)
Capital expenditures.....	(876,900)	(1,091,104)
Proceeds from sales of assets.....	502,681	411,322
Acquisitions of minority interests.....	--	(887,849)
Other, net.....	(37,022)	19,970
	-----	-----
Net cash used in investing activities.....	(1,617,534)	(3,225,173)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of long-term debt.....	3,770,953	4,836,895
Principal payments on long-term debt.....	(3,488,331)	(3,917,912)
Cash dividends.....	--	(83,240)
Net proceeds from issuance of common stock.....	--	203,876
Proceeds from sale of treasury stock.....	--	739,161
Proceeds from exercise of common stock options and warrants and other employee benefit programs.....	175,444	134,776
Other, net.....	--	(22,256)
	-----	-----
Net cash provided by financing activities.....	458,066	1,891,300
	-----	-----
Effect of exchange rate changes on cash and cash equivalents.....	2,027	1,650
	-----	-----
Increase (decrease) in cash and cash equivalents.....	134,989	(10,533)
Cash and cash equivalents at beginning of period.....	86,873	189,942
	-----	-----
Cash and cash equivalents at end of period.....	\$ 221,862	\$ 179,409
	=====	=====

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

## WASTE MANAGEMENT, INC.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net loss.....	\$(947,773)	\$(1,258,473)	\$(282,823)	\$(834,187)
Other comprehensive income (loss):				
Foreign currency translation adjustment....	62,813	(3,456)	(41,203)	(57,121)
Minimum pension liability adjustment, net of taxes of \$41,920.....	(65,844)	--	(65,844)	--
Comprehensive loss.....	<u>\$(950,804)</u>	<u>\$(1,261,929)</u>	<u>\$(389,870)</u>	<u>\$(891,308)</u>

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

## WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The condensed consolidated financial statements of Waste Management, Inc. and subsidiaries (the "Company") presented herein are unaudited. In the opinion of management, these financial statements include all adjustments (which include normal recurring and nonrecurring adjustments, as disclosed below) necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented except as discussed in Note 1. 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 Current Report on Form 8-K dated September 17, 1999 and the information included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

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

Certain reclassifications have been made to prior periods in order to conform to the current presentation.

## 1. THIRD QUARTER 1999 ACCOUNTING REVIEW CHARGES AND ADJUSTMENTS

During the third quarter of 1999, the Company initiated a comprehensive internal review of its accounting records, systems, processes and controls at the direction of its Board of Directors. As discussed below, the Company experienced significant difficulty in the integration and conversion of information and accounting systems subsequent to the WM Holdings Merger, including certain financial systems and the billing systems. As a result of these systems and process issues, and other issues raised during the third quarter 1999 accounting review, certain charges and adjustments were recorded, as discussed below. As a result of the review, the Company recorded certain adjustments which had a material effect on its financial statements for the three and nine months ended September 30, 1999. The following is a summary of charges recorded during the third quarter of 1999 (in thousands):

Held for sale asset adjustments	\$ 414,275
Account reconciliations	347,668
Increase to allowance for doubtful accounts and other accounts receivable adjustments	211,483
Asset impairments (excluding held for sale adjustments)	178,309
Insurance reserves and other insurance adjustments	147,868
Legal, severance and consulting accruals	141,999
Loss contract reserve adjustments	49,338
Increases in environmental reserves	48,983
Merger and acquisition related costs	31,568
Other	191,026
	-----
Impact of charges before income tax benefit	1,762,517
Income tax benefit	(536,756)
	-----
After-tax charges	\$1,225,761
	=====

In August 1999, the Company's Board of Directors adopted a strategic plan that includes the divestiture of its international operations and certain other businesses. Based primarily on preliminary bids from interested parties, these and certain other assets which were identified as held for sale during the third quarter were written down to fair value less cost to sell in accordance with SFAS No. 121, resulting in a pre-tax charge of approximately \$414.3 million. These assets were considered held for use for periods prior to the third

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

quarter of 1999 and did not meet the criteria for impairment recognition as a held for use asset, and therefore, were not considered impaired for periods prior to the third quarter. The assets which were identified as held for sale and subject to adjustment include, among others, certain businesses that are part of the Company's international operations, the Company's nuclear services disposal site operations and certain solid waste operations that are not essential parts of the Company's network. See Note 10 for further analysis of net assets held for sale.

The Company's results for the third quarter reflect pre-tax charges of approximately \$347.7 million attributable to the reconciliation of previously unreconciled intercompany accounts, cash, accounts receivable, fixed asset, accounts payable and certain other accounts at the Company's operating districts and other locations. The Company's third quarter accounting review included a detailed review of substantially all of the districts' and other locations' financial and accounting records. The review necessitated a number of adjustments affecting transactions related to the current period and to periods prior to the quarter ended September 30, 1999 involving many different accounts. Although the third quarter charges of \$347.7 million may relate to a number of periods, the Company does not currently have sufficient information to identify all specific charges attributable to individual prior periods. Furthermore, producing the required information to perform such an identification of these charges would be cost prohibitive and disruptive to operations. Based on its analysis of available information, nothing has come to the attention of management to indicate that the impact of these charges would have been material in any year prior to 1999.

The Company has recorded asset impairments of pre-tax charges of \$178.3 million related to several landfill sites and certain other operating assets in the third quarter of 1999. These asset impairments resulted from the Company's recent business decisions regarding optimal operating strategies in specific markets in which the Company operates, recent changes in facts and circumstances, and the review of the Company's landfills, as discussed below.

The Company performs a comprehensive, centrally coordinated review of its North American landfills on an annual basis. During the third quarter of 1999, that review included an evaluation of potential landfill expansion projects, with a newly refined and more stringent set of criteria for evaluating the probability of obtaining expansions to existing sites, which had the effect of excluding certain expansions that met the Company's previous criteria. Effective for the third quarter of 1999, the Company applied a newly defined, more stringent set of criteria for evaluating the probability of obtaining expansion to landfill airspace at existing sites are as follows:

- Personnel are actively working to obtain land use, 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;
- The respective landfill owners or the Company has a legal right to use or obtain land to be included in the expansion plan;
- There are no significant known community, business, or political restrictions or 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 have been estimated based on conceptual design.

Additionally, to include airspace from an expansion effort, the expansion permit application must generally be expected to be submitted within one year, and the expansion permit must be expected to be received within two to five years. Exceptions to any criteria must be obtained through a landfill specific

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

approval process that includes an approval from the Company's Chief Financial Officer and final review by the Audit Committee of the Board of Directors.

The exclusion of these expansions due to the more stringent criteria and related business judgments regarding probable success increased depreciation and amortization and the provision for final closure and post-closure (included in operating expenses) by \$14.0 million in the third quarter of 1999. These exclusions also resulted in the Company recognizing \$32.6 million in landfill impairments in the third quarter of 1999, most of which is included in the \$178.3 million of asset impairments described in the preceding paragraphs.

Subsequent to the WM Holdings Merger, the Company experienced significant difficulty in the conversion from the WM Holdings information systems to the systems currently in use, resulting in delays and errors, particularly with respect to the Company's billing systems. As a consequence, in connection with the third quarter 1999 accounting review, the Company determined that certain of its outstanding receivables may be uncollectable, and therefore, recorded an increase in the allowance for doubtful accounts. The Company has, however, increased resources for receivable collection efforts and continues to pursue collection of all outstanding balances. In addition, the Company performed a review of other receivable-related balances in connection with this review. Taken together, the Company recorded receivable-related pre-tax charges of \$211.5 million in the third quarter of 1999.

In connection with this review, the Company evaluated the adequacy of its self-insurance liabilities and changed the manner in which it estimates its insurance-related liabilities for its ongoing property and casualty insurance programs. Previously, the Company estimated its insurance-related liabilities for its ongoing programs based on an analysis of insurance claims submitted for reimbursement, plus an estimate for liabilities incurred as of the balance sheet date, but not yet reported to the Company. In the third quarter of 1999, the Company began estimating these liabilities based on actuarially determined estimates of ultimate losses. This change in estimate resulted in an increased pre-tax expense of \$43.9 million in the third quarter of 1999. In addition, the Company increased its insurance-related liabilities based on its assessment of current and expected claims activities and unfavorable claims experience, resulting in an additional pre-tax charge of \$104.0 million in the third quarter of 1999.

The Company recorded pre-tax charges related to legal, severance and consulting costs incurred in the third quarter of 1999 as follows: (a) increases in legal reserves and related charges of \$96.3 million, (b) \$25.0 million related to severance costs, principally for executives who left the Company in the third quarter of 1999 and (c) consulting costs of \$20.7 million related primarily to the third quarter accounting review and related matters.

As part of this review, the Company evaluated significant contracts under which it provides services. As a result of that review, the Company recorded a third quarter pre-tax provision of \$49.3 million related to contracts which were determined to be in a loss position, including revisions to reserves established previously based on new facts and circumstances.

The Company increased its evaluation by \$32.5 million of the ultimate costs required for final closure and post-closure obligations at certain landfills which are either closed or near final closure. That increase, and provisions related to various other environmental issues, totaled \$49.0 million in the third quarter of 1999.

The Company recorded \$31.6 million of merger and acquisition related costs during the third quarter, which consisted of \$12.5 million related to a third quarter purchase business combination and \$19.1 million related to the costs incurred by the Company related to the WM Holdings Merger and the Eastern Merger which are required to be expensed as incurred.

The significant components of the asset impairments and unusual items included in the accompanying Condensed Consolidated Statements of Operations include \$414.3 million related to held for sale adjustments, \$178.3 million related to other asset impairments and \$84.4 million related to increases in legal reserves.

In addition to the charges described above, the Company recorded additional pre-tax charges of \$191.0 million. These additional charges involved many different issues at all levels of the Company,

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

including, for example, adjustments to reserves for specific business disputes, adjustments of over- or under-accruals not described elsewhere herein, and numerous other items.

The charges described above, which include both recurring and nonrecurring items that have been aggregated for this presentation for convenience, were reflected in the Company's financial statements for the three months and the nine months ended September 30, 1999, as follows (in thousands):

	INCLUDES RECURRING & NONRECURRING ITEMS
	-----
Operating revenues.....	\$ (30,928)
	-----
Costs and expenses:	
Operating (exclusive of depreciation and amortization shown below).....	566,417
General and administrative.....	401,729
Depreciation and amortization.....	59,628
Merger and acquisition related costs.....	31,568
Asset impairments and unusual items.....	680,284
Loss from continuing operations held for sale, net of minority interest.....	--
	-----
	1,739,626
	-----
Loss from operations.....	(1,770,554)
	-----
Other income(expense):	
Interest expense.....	702
Interest income.....	13,359
Minority interest.....	(288)
Other income (expense).....	(5,736)
	-----
	8,037
	-----
Loss before income taxes and extraordinary items.....	(1,762,517)
Benefit from income taxes.....	536,756
	-----
Net loss.....	\$(1,225,761)
	=====

As discussed above, the Company recorded significant adjustments in the quarter ended September 30, 1999, certain of which affect account balances applicable to periods prior to the quarter ended September 30, 1999. Accordingly, the Company, after consultation with its independent public accountants, has concluded that its internal controls for the preparation of interim financial information did not provide an adequate basis for its independent public accountants to complete reviews of the quarterly data for the quarters in the nine-month period ended September 30, 1999. As discussed above, the Company believes that certain charges that were recorded in the quarter ended September 30, 1999 may relate to individual prior periods; however, the Company does not have sufficient information to identify all specific charges attributable to prior periods. Based on its analysis of available information, nothing has come to the attention of management, and the Company's independent accountants have advised management that nothing has come to their attention, to indicate that the impact of these charges would have been material in any year prior to 1999. If identification of all specific charges attributable to individual prior periods was possible, the Company believes that the reported results of operations for the quarter ended September 30, 1999 would have been higher than presented in these financial statements. The Company has been advised by its independent public accountants that their report on the Company's December 31, 1999 financial statements will specifically refer to the matters discussed above regarding the interim periods within 1999.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 2. BUSINESS COMBINATIONS

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

In connection with the WM Holdings Merger and the Eastern Merger, the Company incurred significant merger costs and acquisition related asset impairments and unusual items in the third and fourth quarters of 1998 as described in the Company's Current Report on Form 8-K dated September 17, 1999. Additionally, the Company, as noted in Note 1, has recorded \$19.1 million and \$98.8 million of merger costs for the three and nine months ended September 30, 1999, respectively, related to the WM Holdings Merger and the Eastern Merger. Additionally, in the third quarter of 1999, the Company recorded approximately \$12.5 million related to the purchase of a business that when integrated into the Company's operations resulted in the closure of certain Company-owned facilities and relocation of certain of the Company's administrative functions of these businesses.

Cash payments of \$122.8 million and \$418.7 million were made by the Company during the three and nine months ended September 30, 1999, respectively, related to merger and acquisition related costs recorded in 1998 and 1999 for the WM Holdings Merger and the Eastern Merger.

Additionally, the Company is in the process of settling its obligations under the WM Holdings defined benefit pension plan (the "Plan") which was terminated as of October 31, 1999 (although benefit accruals were ceased as of December 31, 1998) and currently intends to liquidate the Plan's assets and settle its obligations to participants. The Company contributed approximately \$43.4 million to the benefit plan trust during the third quarter of 1999 and expects payments of approximately \$185 million to be made through 2000 relating to the termination of the Plan. The actual charge to expense of settling the Plan will be recorded as settlements occur.

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

Merger and acquisition related costs include estimates for anticipated losses related to the sales of assets pursuant to governmental orders and other asset divestiture plans. These anticipated losses have been estimated based on the Company's assessment of relevant facts and circumstances, including consideration of the various provisions of asset sale agreements. In certain instances, the asset sale agreements contain contingencies, the resolution of which are uncertain and may materially change the proceeds which the Company will ultimately receive. Accordingly, dependent upon actual future experience and the resolution of certain contingencies, the amount of losses ultimately recorded by the Company could materially differ from amounts that have been recorded by the Company. During the second quarter of 1999, the Company resolved an outstanding contingency regarding its sale of assets to Republic Services, Inc., which reduced the

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

previously reported loss on that sale by approximately \$80 million. Offsetting this amount in the same quarter, the Company (i) consummated its sale of 51% of its non-land disposal hazardous waste operations and on-site industrial cleaning services which resulted in losses of approximately \$5 million greater than previously estimated; (ii) increased its anticipated losses by approximately \$14 million related to the assets required to be sold pursuant to the Eastern Merger; (iii) identified other non-core operations for disposition that have a book value of approximately \$36 million greater than the estimated proceeds; and (iv) identified other merger related items comprising the remainder of the balance.

During the nine months ended September 30, 1999, the Company consummated over 220 acquisitions that were accounted for under the purchase method of accounting. The total cost of acquisitions was approximately \$1.3 billion, which included cash paid, common stock issued and debt assumed.

## 3. LONG-TERM DEBT

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

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
Bank credit facilities.....	\$ 1,800,000	\$ 1,903,100
Commercial paper, average interest of 5.3% in 1999 and 5.7% in 1998.....	109,280	840,108
Senior notes and debentures, interest 6% to 8 3/4%, due through 2029.....	6,948,841	5,959,884
4% Convertible subordinated notes due 2002.....	535,275	535,275
4 1/2% Convertible subordinated notes due 2001.....	--	148,370
5% Convertible subordinated debentures due 2006.....	--	114,445
5.75% Convertible subordinated notes due 2005.....	458,093	453,680
Tax-exempt and project bonds, principal payable in periodic installments, maturing through 2021, fixed and variable interest rates ranging from 3.85% to 9.25% at September 30, 1999.....	1,251,163	1,220,634
Installment loans, notes payable and other, interest to 14%, maturing through 2017.....	300,592	522,447
	-----	-----
	11,403,244	11,697,943
Less current maturities.....	2,689,698	583,742
	-----	-----
	\$ 8,713,546	\$11,114,201
	=====	=====

As a result of the charges and adjustments recorded in the third quarter of 1999 (see Note 1), the Company would not have been in compliance as of September 30, 1999 with certain financial covenants as required by its four bank credit facilities. The Company received waivers from each of its four bank groups for the period ended September 30, enabling the Company to be in full compliance with and have full access to its existing bank credit facilities.

Waivers for the two domestic bank facilities extend through December 30, 1999. Additionally, the Company is in discussions with its banks regarding permanent amendments to these credit facilities to amend certain financial covenants and allow for the divestiture of certain assets as announced by the Company on August 16, 1999 as part of its strategic plan. Management believes that the permanent amendments will be in place by December 30, 1999. The waivers for the two Euro facilities extend to the maturity of the respective facilities, which is November 25, 1999. Extensions of these two facilities are currently being pursued. Should the Company be unsuccessful in obtaining amendments from its banks prior to expiration of the waivers on December 30, 1999, then all borrowings and letters of credit outstanding would be considered current obligations, due upon demand by the banks. In addition, the Company would not have access to the unused portions of such lines which could impair its ability to meet ongoing working capital and other liquidity

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

requirements. There can be no assurance that the Company will be successful in completing the amendments prior to December 31, 1999 or would be able to arrange alternate sources of liquidity to meet its obligations.

Because the bank facility waivers expire before a one year period, the Company's outstanding bank borrowings and commercial paper associated with those facilities are classified as current maturities of long-term debt in the September 30, 1999 financial statements pending amendments of the credit agreements. The Company has a scheduled maturity of \$200 million of senior notes on November 15, 1999. Additionally, based on the current market price of the Company's common stock, the Company expects the holders of its 5.75% convertible subordinated notes due 2005 to exercise a redemption option that becomes available March 15, 2000. The repayment of the senior notes and expected repayment of the convertible subordinated notes are anticipated to be funded with proceeds available from the Company's bank facilities. These amounts are classified as current maturities of long-term debt in the September 30, 1999 financial statements.

At September 30, 1999, the Company had borrowings of \$1.05 billion under the Company's \$3.0 billion syndicated loan facility (the "Syndicated Facility") at 5.8% interest, and had borrowings of \$750.0 million under the Company's \$2.0 billion senior revolving credit facility (the "Credit Facility") at 5.7% interest, both amounts representing new net borrowings as well as refinancing of maturing commercial paper during the quarter ended September 30, 1999. The facility fees were .125% and .150% per annum under the Syndicated Facility and Credit Facility, respectively, at September 30, 1999. The Company had issued letters of credit of \$1.2 billion in aggregate under the Syndicated Facility and Credit Facility leaving unused and available credit capacity of \$1.9 billion at September 30, 1999.

The Company's two multi-currency credit facilities, which are included in the December 31, 1998 long-term debt balances, are classified at September 30, 1999 in current assets as net assets held for sale and are thus excluded from long-term debt as these credit facilities relate to WM International, which is to be sold pursuant to the Company's strategic plan. The two multi-currency credit facilities had an outstanding balance as of September 30, 1999 totaling Euro 245.1 million (equivalent to approximately \$262.0 million). The interest rates on the two outstanding loans under the multi-currency credit facilities at September 30, 1999, were 5.6% and 3.0%.

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 4. INCOME TAXES

The differences in income taxes computed at the federal statutory income tax rate and reported income taxes for the three and nine months ended September 30, 1999 and 1998, respectively, are primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, and for the periods ended September 30, 1999, the non-deductible costs associated with the impairment of certain foreign businesses and other third quarter 1999 charges and adjustments described in Note 1 and the cost associated with remitting the earnings of foreign subsidiaries, which are no longer considered permanently reinvested.

## 5. EARNINGS PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Number of common shares outstanding.....	619,547	597,304	619,547	597,304
Effect of using weighted average common shares outstanding.....	(442)	(1,798)	(8,690)	(18,032)
Weighted average number of common shares outstanding...	619,105	595,506	610,857	579,272

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

At September 30, 1999, there were approximately 57.9 million shares of common stock potentially issuable with respect to stock options, warrants and convertible debt, which could dilute basic earnings per share in the future.

In the third quarter of 1999, the Company declared an annual cash dividend of \$0.01 per share or \$6.2 million to stockholders of record on September 30, 1999, which was paid October 19, 1999.

## 6. COMPREHENSIVE INCOME

Comprehensive income represents the change in equity of an enterprise from transactions and other events and circumstances from nonowner sources and includes all changes in equity except those resulting from investments by owners and distributions to owners. The components of accumulated other comprehensive income are as follows for the periods indicated (in thousands):

	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	MINIMUM PENSION LIABILITY ADJUSTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, December 31, 1998.....	\$(353,642)	\$ (67,162)	\$(420,804)
Year-to-date change.....	(41,203)	(65,844)	(107,047)
Balance, September 30, 1999.....	\$(394,845)	\$(133,006)	\$(527,851)

The Company is continuing the process of settling its obligations under the Plan, and the change in minimum pension liability adjustment relates to the

Plan. The change results from updated actuarial calculations of the Plan's accumulated benefit obligation and resultant future settlement expense, due to the availability of updated census data. To the extent that the termination benefit has not yet been charged to

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

expense, additional minimum pension liability has been recorded as a charge to other comprehensive income. The Company expects to settle the obligations at various dates in 2000, at which time settlement expense will be recorded and adjustments to other comprehensive income will be made.

## 7. ENVIRONMENTAL LIABILITIES

The Company performs a comprehensive, centrally coordinated review of its North American landfills on an annual basis. This review has resulted in asset impairments and increased airspace amortization and operating expenses in the third quarter of 1999.

The Company has material financial commitments for the costs associated with its future obligations for final closure for all of its North American landfills, which is the closure of the final cell of a landfill, and the regulatory required costs associated with existing operations at a hazardous waste treatment, storage or disposal facility which are subject to the Toxic Substances Control Act ("TSCA") or the Resource Conservation and Recovery Act ("RCRA"), and also, the post-closure of such facilities. For landfills, estimates for final closure and post-closure costs are developed using input from the Company's engineers and accountants and are reviewed by management, typically at least once per year. Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated at 2% until expected time of payment and then discounted to present value at 5.5%. The estimated final closure and post-closure liabilities are accrued using the calculated rate and charged to expense as airspace is consumed. At the time the site discontinues accepting waste and is closed, the total estimated final closure costs and the post-closure costs are accrued to the required present value of such estimates.

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

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

The Company has filed suit against numerous insurance carriers seeking reimbursement for past and future remedial, defense and tort claim costs at a number of sites. Carriers involved in these matters have typically denied coverage and are defending against the Company's claims. While the Company is vigorously pursuing these claims, it regularly considers settlement opportunities when appropriate terms are offered. Settlements of \$7.1 million in the nine months ended September 30, 1999, and \$42.0 million for the nine months ended September 30, 1998, have been included in operating costs and expenses as an offset to environmental expenses. No settlements were recorded in the third quarter of 1999 or 1998.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 8. COMMITMENTS AND CONTINGENCIES

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

Environmental matters -- The Company's operations are intrinsically connected with the protection of the environment. As such, a significant portion of the Company's operating costs and capital expenditures could be characterized as costs of environmental protection. Such costs may increase in the future as a result of legislation or regulation. However, the Company believes that, in general, it tends to benefit when environmental regulation increases, which may increase the demand for its services, and that it has the resources and experience to manage environmental risk. See Note 7 for further discussion.

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

In December 1998, the Company announced an agreement to settle the consolidated action against all defendants and the establishment of a settlement fund of \$220 million for the class of open market purchasers of WM Holdings securities between November 3, 1994, and February 24, 1998. On September 17, 1999, the United States District Court for the Northern District of Illinois gave final approval to the settlement after a hearing. After the Court had approved the settlement and ordered the case dismissed, a solitary, putative class member sought to intervene in the action and to object, not to the settlement, but to the size of the fee award to plaintiffs' class counsel. The Court denied the motion and the putative class member has filed a notice of appeal from this denial.

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

Additionally, there are several other actions and claims that arise out of the same set of facts that have been brought by business owners who received WM Holdings common stock in the sales of their businesses to WM Holdings. These actions and claims allege, among other things, breach of warranty or breach of contract based on WM Holdings' restatement of earnings in February 1998. In April 1999, courts having jurisdiction over two such actions granted summary judgement against WM Holdings and in favor of the individual

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

plaintiffs who brought the respective claims on the issue of breach of contract. Additionally, in October 1999, the court in one of these actions certified a class consisting of all sellers of business assets to WM Holdings between January 1, 1990 and February 24, 1998 whose purchase agreements with WM Holdings contained express warranties regarding the accuracy of WM Holdings' financial statements. The extent of damages, if any, in these actions has not yet been determined.

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

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

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three months ended March 31, 1999 may have included certain unusual pretax income items. Between July 8, 1999 and September 3, 1999, numerous lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. These actions have been consolidated into a single action. On September 7, 1999, a lawsuit was filed against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Texas. The parties have filed a joint motion to transfer this case to the United States District Court for the Southern District of Texas, to be consolidated with the consolidated action pending there. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 2, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock between March 31, 1999 and July 6, 1999 at prices known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the respective courts deem proper.

In addition, three of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. Two of these lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and August 18, 1999, respectively, and one was filed in the United States District Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged common stock sales during the three months ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan (the "ESPP") who purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the ESPP bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These ESPP participants have indicated in the letter that, absent action by the ESPP, they intend to sue the Company and the directors and officers on behalf of the ESPP and its participants. The administrative committee of the ESPP has advised these participants that it cannot file suit, as requested, because the committee is neither a representative of the plan nor a Waste Management shareholder. The Company has not received any further communication from these participants. However, the Company does not believe that this claim, if pursued, would have a material adverse effect on the Company's consolidated financial statements.

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

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

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

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

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purported to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the Plan. On behalf of the purported class, the plaintiff sought compensatory and punitive damages, costs, restitution with interest, and such relief as the Court deemed proper. On July 29, 1999, the Company announced that it had determined to proceed with the termination of the Plan, liquidating the Plan's assets and settling its obligations to participants. The plaintiff voluntarily dismissed her case on September 13, 1999. However, that same day, the same attorneys filed another Plan-related putative class action against the Company and various individual defendants in the United States District Court for the Middle District of Alabama, Northern Division. This case, brought by a different putative class representative, alleges that the defendants violated the federal Employee Retirement Income Security Act ("ERISA") by failing to terminate the Plan in accordance with its terms, by failing to manage Plan assets prudently and in the interests of Plan participants, and by delaying the plan's termination date and the expected distribution of lump-sum pension benefits. On behalf of the purported class, the plaintiff seeks declaratory and injunctive relief, restitution of all losses and expenses allegedly incurred by the Plan, payment of all benefits allegedly owed to Plan participants, attorney's fees and costs, and other "appropriate" relief under the Internal Revenue Code, ERISA and the Plan. Defendants' time to move, answer or otherwise respond to the complaint has been extended, and no proceedings have yet occurred.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

From time to time, the Company and certain of its subsidiaries are named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of a Company's subsidiary having owned, operated or transported waste to a disposal facility which is alleged to have contaminated the environment or, in certain cases, conducted environmental remediation activities at sites. Some of such lawsuits may seek to have the Company or its subsidiaries pay the costs of groundwater monitoring and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While the Company believes it has meritorious defenses to these lawsuits, their ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Accordingly, it is possible such matters could have a material adverse impact on the Company's consolidated financial statements.

The Company or certain of its subsidiaries have been identified as potentially responsible parties in a number of governmental investigations and actions relating to waste disposal facilities which may be subject to remedial action under the Comprehensive Environmental Response, Compensation and Liabilities Act of 1980, as amended ("CERCLA" or "Superfund"). The majority of these proceedings are based on allegations that certain subsidiaries of the Company (or their predecessors) transported hazardous substances to the sites in question, often prior to acquisition of such subsidiaries by the Company. Such proceedings arising under Superfund typically involve numerous waste generators and other waste transportation and disposal companies and seek to allocate or recover costs associated with site investigation and cleanup, which costs could be substantial.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In August 1999, sludge materials from trucks entering the Company's Woodland Meadows Landfill in Michigan were seized by the FBI pursuant to an investigation of the generator of the sludge materials, a company that provides waste treatment services. Subsequently, the Company received two Grand Jury subpoenas, as well as a request for information from the Michigan Department of Environmental Quality, seeking information related to the landfill's waste acceptance practices and the Company's business relationship with the generator. According to affidavits attached to the subpoena, the generator is alleged to have failed to properly treat sludges prior to disposal. The generator's treatment plant was sold by the Company to the generator in May 1998. The Company is cooperating with the pending investigation and believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

As of September 30, 1999, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 84 locations listed on the NPL. Of the 84 NPL sites at which claims have been made against the Company, 17 are sites which the Company has come to own over time. All of the NPL sites owned by the Company were initially sited by others as land disposal facilities. At each of the 17 owned facilities, the Company is working in conjunction with the government to characterize or remediate identified site problems. In addition, at these 17 facilities, the Company has either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The 67 NPL sites at which claims have been made against the Company and which are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of a governmental decision as to the appropriate remedy and an agreement among liable parties as to the share each will pay for implementing that remedy. At others where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, the Company's future costs are uncertain.

In November 1998, the Company was sued by the estate of Shayne Conner, who died on November 24, 1995 in Greenland, New Hampshire. Plaintiffs allege that Mr. Conner's death was caused by biosolids that were applied to a nearby field by Wheelabrator's BioGro business unit. The litigation is currently in the discovery phase, and the Company is waiting for plaintiff's production of a court-ordered expert on causation. The Company is vigorously defending itself and believes that it will prevail in the litigation.

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has brought suit against a substantial number of insurance carriers in an action entitled Waste Management, Inc. et al. v. The Admiral Insurance Company, et al. pending in the Superior Court in Hudson County, New Jersey. In this action the Company is seeking a declaratory judgment that environmental liabilities asserted against the Company or its subsidiaries, or that may be asserted in the future, are covered by insurance policies purchased by the Company or its subsidiaries. The Company is also seeking to recover defense costs and other damages incurred as a result of the assertion of environmental liabilities against the Company or its subsidiaries for events occurring over at least the last 25 years at approximately 140 sites and the defendant insurance carriers' denial of coverage of such liabilities. While the Company has reached settlements with some of the carriers, the remaining defendants have denied liability to the Company and have asserted various defenses, including that environmental liabilities of the type for which the Company is seeking relief are not risks covered by the insurance policies in question. The remaining defendants are contesting these claims vigorously. Discovery is complete as to the 12 sites in the first phase of the case and discovery is expected to continue for several years as to the remaining sites. Currently, trial dates have not been set. The Company is unable at this time to predict the outcome of this proceeding. No amounts have been recognized in the Company's condensed consolidated financial statements for potential recoveries.

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

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

## 9. SEGMENT AND RELATED INFORMATION

The Company's North American solid waste management operations are its principal reportable segment. This segment provides integrated waste management services consisting of collection, transfer, disposal (solid waste landfill, hazardous waste landfill and waste-to-energy), recycling, and other services provided to commercial, industrial, municipal and residential customers. Similar operations in markets outside of North America are disclosed as a separate segment. The Company's other reportable segment consists of non-solid waste services, aggregated as a single segment for this reporting presentation. The non-solid waste segment includes other hazardous waste services such as chemical waste management services and low-level and other radioactive waste services, the Company's independent power projects, and other non-solid waste services to commercial, industrial and government customers. Through June 30, 1999, the Company's non-solid waste services also included non-land disposal hazardous waste operations and on-site industrial cleaning services. However, on June 30, 1999, the Company sold a 51% interest in these operations to Vivendi SA, at which time the Company began accounting for its remaining 49% interest on the equity method of accounting.

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized financial information concerning the Company's reportable segments is shown in the following table, reflecting the charges related to the third quarter accounting review adjustments, which include both recurring and nonrecurring items (see Note 1)(in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	CORPORATE FUNCTIONS(A)	TOTAL
	-----	-----	-----	-----	-----
Three Months Ended:					
September 30, 1999					
Net operating revenues(b).....	\$2,758,134	\$ 442,912	\$194,006	\$ --	\$3,395,052
Earnings before interest and taxes(c).....	\$ (1,878)	\$ 45,563	\$(18,795)	\$(432,336)	\$ (407,446)
September 30, 1998					
Net operating revenues(b).....	\$2,595,545	\$ 388,490	\$253,666	\$ --	\$3,237,701
Earnings before interest and taxes(c).....	\$ 698,231	\$ 30,216	\$ 27,921	\$ (68,275)	\$ 688,093
Nine Months Ended:					
September 30, 1999					
Net operating revenues(b).....	\$7,961,014	\$1,200,716	\$628,732	\$ --	\$9,790,462
Earnings before interest and taxes(c).....	\$1,482,257	\$ 115,317	\$ 30,504	\$(460,497)	\$1,167,581
September 30, 1998					
Net operating revenues(b).....	\$7,554,474	\$1,133,288	\$705,403	\$ --	\$9,393,165
Earnings before interest and taxes(c).....	\$1,850,955	\$ 89,062	\$ 75,625	\$(293,661)	\$1,721,981

- 
- (a) Corporate functions include the corporate treasury function (except for limited amounts of locally negotiated and managed project debt), administration of corporate tax function, the corporate insurance function, and management of closed landfills and related insurance recovery functions, administration of certain international remediation liabilities along with other typical administrative functions.
- (b) Non-Solid Waste revenues are net of inter-segment revenue with North American Solid Waste of \$24.4 and \$77.2 for the three and nine months ended September 30, 1999, respectively, and \$36.8 million and \$90.8 million for the three and nine months ended September 30, 1998, respectively. There are no other significant sales between segments.
- (c) For those items included in the determination of EBIT (the earnings measurement used by management to evaluate operating performance), the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies included in the Company's Current Report on Form 8-K dated September 17, 1999. EBIT is income (loss) from operations excluding merger and acquisition related costs, asset impairments and unusual items, and loss from continuing operations held for sale, net of minority interest.

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
EBIT, as reported above.....	\$ (407,446)	\$ 688,093	\$1,167,581	\$1,721,981
(Plus) less:				
Merger and acquisition related costs....	31,568	1,564,164	111,263	1,579,127
Asset impairments and unusual items.....	680,284	666,952	700,034	666,952
Loss from continuing operations held for sale, net.....	--	2,721	--	151
Interest expense.....	188,634	174,262	549,702	503,347
Interest income.....	(20,341)	(7,256)	(28,823)	(21,760)
Minority interest.....	4,697	(23,868)	17,706	14,298
Other income.....	(8,691)	(12,528)	(39,268)	(122,960)
Loss before income taxes and extraordinary item.....	(1,283,597)	(1,676,354)	(143,033)	(897,174)
Provision for (benefit from) income taxes.....	(335,824)	(417,881)	139,790	(66,887)
Loss before extraordinary item.....	(947,773)	(1,258,473)	(282,823)	(830,287)
Extraordinary item, net of taxes.....	--	--	--	(3,900)
Net loss.....	\$ (947,773)	\$ (1,258,473)	\$ (282,823)	\$ (834,187)

## 10. NET ASSETS HELD FOR SALE

During the third quarter of 1999 the Company's Board of Directors adopted a strategic plan which includes the divestiture of its international operations, significant portions of its non-core businesses and selected North American solid waste operations. As discussed in Note 1, the Company has recorded charges to write down certain of these assets. In determining fair value, the Company considered, among other things, the range of preliminary purchase prices being discussed with potential buyers. Information regarding the businesses classified as net assets held for sale for the three and nine months ended September 30, 1999 and 1998 is as follows (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
Three Months Ended:				
September 30, 1999				
Operating revenues.....	\$ 62,262	\$ 442,912	\$101,655	\$ 606,829
Earnings before interest and taxes(a).....	(2,905)	45,563	4,014	46,672
September 30, 1998				
Operating revenues.....	\$ 62,450	\$ 388,490	\$ 93,788	\$ 544,728
Earnings before interest and taxes(a).....	7,425	30,216	4,305	41,946
Nine Months Ended:				
September 30, 1999				
Operating revenues.....	\$175,501	\$1,200,716	\$273,735	\$1,649,952
Earnings before interest and taxes(a).....	21,267	115,317	21,570	158,154
September 30, 1998				
Operating revenues.....	\$202,706	\$1,133,288	\$264,799	\$1,600,793
Earnings before interest and taxes(a).....	45,020	89,062	21,323	155,405

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(a) For those items included in the determination of EBIT (the earnings measurement used by management to evaluate operating performance), the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies included in the Company's Current Report on Form 8-K dated September 17, 1999. EBIT is income (loss) from operations excluding merger and acquisition related costs, asset impairments and unusual items, and loss from continuing operations held for sale, net of minority interest.

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
	-----	-----	-----	-----
As of September 30, 1999:				
-----				
Receivables, net.....	\$ 35,006	\$ 405,795	\$ 30,307	\$ 471,108
Other current assets.....	12,228	217,916	35,017	265,161
Property and equipment and other noncurrent assets.....	510,041	2,371,127	56,406	2,937,574
Current maturities of long-term debt.....	(2,257)	(91,893)	--	(94,150)
Other current liabilities.....	(45,919)	(512,742)	(88,699)	(647,360)
Long-term debt, less current maturities.....	(60,235)	(280,034)	--	(340,269)
Other noncurrent liabilities.....	(24,824)	(363,441)	(9,091)	(397,356)
Minority interest.....	--	(121,592)	(589)	(122,181)
	-----	-----	-----	-----
Net assets held for sale.....	\$424,040	\$1,625,136	\$ 23,351	\$2,072,527
	=====	=====	=====	=====

## 11. NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and derivatives used for hedging purposes. SFAS No. 133 requires that entities recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133, as amended by SFAS No. 137, is effective for the Company in its first fiscal quarter in 2001. Management is currently assessing the impact the adoption of SFAS No. 133 will have on the Company's consolidated financial statements.

## 12. SUBSEQUENT EVENTS

In the second quarter of 1999, the Company entered into an agreement to purchase all of the Canadian solid waste assets of Allied Waste Industries, Inc. ("Allied") that Allied acquired upon its acquisition of Browning-Ferris Industries, Inc. The purchase price of these assets was to be approximately \$501 million in cash. On November 8, 1999, the Company and Allied entered into revised agreements, which replace the original agreement.

Under the terms of the revised agreements, Allied has agreed to sell to the Company all of the shares of Browning-Ferris Industries Limited ("BFIL"), which owns the solid waste operations of Browning-Ferris in Canada, including collection operations, transfer stations, landfill operations and recycling facilities. Annual revenues generated from these operations are estimated to be approximately US \$176 million. Allied will continue to operate certain of the Canadian operations with total revenues estimated to be approximately US \$53 million that the Company is being required to divest by the Competition Bureau of Canada and market those operations for sale, on behalf of BFIL, after the closing. The sale of the BFIL shares is subject to final approval pursuant to the Competition Act and the Investment Canada Act. Additionally, the Company has agreed to sell to Allied certain U.S. solid waste services assets with combined reported historical revenue of approximately \$132 million, including nine landfill operations, 19 collection operations, five transfer stations

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

and a landfill operating contract. The sale of such assets is subject to final approval pursuant to the Hart-Scott Rodino Act. The Company expects to receive net cash proceeds as a result of the revised transactions.

## 13. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

WM Holdings ("Guarantor"), a wholly-owned subsidiary of Waste Management, Inc. ("Parent"), has fully and unconditionally guaranteed all of the senior indebtedness of the Parent, as well as the Parent's 4% convertible subordinated notes due 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-Guarantor"). Accordingly, the following unaudited condensed consolidating balance sheets as of September 30, 1999 and December 31, 1998, and the related unaudited condensed consolidating statements of operations for the three and nine months ended September 30, 1999 and 1998, along with the related unaudited statement of cash flows, have been provided below (in thousands).

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
(Unaudited)  
September 30, 1999

## ASSETS

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Current assets:					
Cash and cash equivalents...	\$ 67,713	\$ 2,449	\$ 151,700	\$ --	\$ 221,862
Other current assets.....	--	--	4,575,416	--	4,575,416
	-----	-----	-----	-----	-----
	67,713	2,449	4,727,116	--	4,797,278
Property and equipment, net...	--	--	10,389,877	--	10,389,877
Intercompany and investment in subsidiaries.....	11,103,845	6,244,104	(13,174,823)	(4,173,126)	--
Other assets.....	16,272	10,495	6,211,092	--	6,237,859
	-----	-----	-----	-----	-----
Total assets.....	\$11,187,830	\$6,257,048	\$ 8,153,262	\$(4,173,126)	\$21,425,014
	=====	=====	=====	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Current maturities of long-term debt.....	\$ 1,909,280	\$ 200,000	\$ 580,418	\$ --	\$ 2,689,698
Accounts payable and other accrued liabilities.....	92,598	354,361	2,746,645	--	3,193,604
	-----	-----	-----	-----	-----
	2,001,878	554,361	3,327,063	--	5,883,302
Long-term debt, less current maturities.....	3,953,119	3,789,089	971,338	--	8,713,546
Other liabilities.....	--	--	2,268,123	--	2,268,123
	-----	-----	-----	-----	-----
Total liabilities...	5,954,997	4,343,450	6,566,524	--	16,864,971
Minority interest in subsidiaries.....	--	--	6,995	--	6,995
Stockholders' equity.....	5,232,833	1,913,598	1,579,743	(4,173,126)	4,553,048
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$11,187,830	\$6,257,048	\$ 8,153,262	\$(4,173,126)	\$21,425,014
	=====	=====	=====	=====	=====

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET  
(Unaudited)  
December 31, 1998

## ASSETS

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Current assets:					
Cash and cash equivalents.....	\$ 27,726	\$ (48,578)	\$ 107,725	\$ --	\$ 86,873
Other current assets.....	--	8,220	3,786,304	--	3,794,524
	-----	-----	-----	-----	-----
	27,726	(40,358)	3,894,029	--	3,881,397
Property and equipment, net.....	--	--	11,637,739	--	11,637,739
Intercompany and investment in subsidiaries.....	10,373,056	6,271,497	(12,371,573)	(4,272,980)	--
Other assets.....	21,071	14,797	7,160,194	--	7,196,062
	-----	-----	-----	-----	-----
Total assets.....	\$10,421,853	\$6,245,936	\$ 10,320,389	\$(4,272,980)	\$22,715,198
	=====	=====	=====	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Current maturities of long-term debt.....	\$ --	\$ 350,000	\$ 233,742	\$ --	\$ 583,742
Accounts payable and other accrued liabilities....	63,547	231,529	3,414,848	--	3,709,924
	-----	-----	-----	-----	-----
	63,547	581,529	3,648,590	--	4,293,666
Long-term debt, less current maturities.....	5,197,013	3,786,935	2,130,253	--	11,114,201
Other liabilities.....	--	--	2,822,759	--	2,822,759
	-----	-----	-----	-----	-----
Total liabilities.....	5,260,560	4,368,464	8,601,602	--	18,230,626
Minority interest in subsidiaries.....	--	--	112,076	--	112,076
Stockholders' equity.....	5,161,293	1,877,472	1,606,711	(4,272,980)	4,372,496
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	\$10,421,853	\$6,245,936	\$ 10,320,389	\$(4,272,980)	\$22,715,198
	=====	=====	=====	=====	=====

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
(Unaudited)  
Nine Months Ended September 30, 1999

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$ 9,790,462	\$ --	\$ 9,790,462
Costs and expenses.....	--	--	(9,434,178)	--	(9,434,178)
Income from operations.....	--	--	356,284	--	356,284
Other income (expense):					
Interest income (expense), net.....	(269,972)	(205,321)	(45,586)	--	(520,879)
Equity in subsidiaries, net of taxes.....	(114,091)	14,235	--	99,856	--
Minority interest.....	--	--	(17,706)	--	(17,706)
Other, net.....	--	--	39,268	--	39,268
	(384,063)	(191,086)	(24,024)	99,856	(499,317)
Income (loss) from continuing operations before income taxes.....	(384,063)	(191,086)	332,260	99,856	(143,033)
Provision for (benefit from) income taxes.....	(101,240)	(76,995)	318,025	--	139,790
Net income (loss).....	<u>\$(282,823)</u>	<u>\$(114,091)</u>	<u>\$ 14,235</u>	<u>\$ 99,856</u>	<u>\$ (282,823)</u>

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
(Unaudited)  
Three Months Ended September 30, 1999

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$ 3,395,052	\$ --	\$ 3,395,052
Costs and expenses.....	--	--	(4,514,350)	--	(4,514,350)
Loss from operations.....	--	--	(1,119,298)	--	(1,119,298)
Other income (expense):					
Interest income (expense), net.....	(95,805)	(66,097)	(6,391)	--	(168,293)
Equity in subsidiaries, net of taxes.....	(887,895)	(846,584)	--	1,734,479	--
Minority interest.....	--	--	(4,697)	--	(4,697)
Other, net.....	--	--	8,691	--	8,691
	(983,700)	(912,681)	(2,397)	1,734,479	(164,299)
Loss from continuing operations before income taxes.....	(983,700)	(912,681)	(1,121,695)	1,734,479	(1,283,597)
Benefit from income taxes.....	(35,927)	(24,786)	(275,111)	--	(335,824)
Net loss.....	<u>\$(947,773)</u>	<u>\$(887,895)</u>	<u>\$ (846,584)</u>	<u>\$1,734,479</u>	<u>\$ (947,773)</u>

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
(Unaudited)  
Nine Months Ended September 30, 1998

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$9,393,165	\$ --	\$9,393,165
Costs and expenses.....	--	--	(9,917,414)	--	(9,917,414)
Loss from operations.....	--	--	(524,249)	--	(524,249)
Other income (expense):					
Interest income (expense),					
net.....	(155,612)	(237,501)	(88,474)	--	(481,587)
Equity in subsidiaries, net of					
taxes.....	(736,930)	(588,491)	--	1,325,421	--
Minority interest.....	--	--	(14,298)	--	(14,298)
Other, net.....	--	--	122,960	--	122,960
	(892,542)	(825,992)	20,188	1,325,421	(372,925)
Loss from continuing operations					
before income taxes.....	(892,542)	(825,992)	(504,061)	1,325,421	(897,174)
Provision for (benefit from)					
income taxes.....	(58,355)	(89,062)	80,530	--	(66,887)
Loss from continuing					
operations.....	(834,187)	(736,930)	(584,591)	1,325,421	(830,287)
Extraordinary item.....	--	--	(3,900)	--	(3,900)
Net loss.....	\$(834,187)	\$(736,930)	\$ (588,491)	\$1,325,421	\$ (834,187)
	=====	=====	=====	=====	=====

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
(Unaudited)  
Three Months Ended September 30, 1998

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$ 3,237,701	\$ --	\$ 3,237,701
Costs and expenses.....	--	--	(4,783,445)	--	(4,783,445)
Loss from operations.....	--	--	(1,545,744)	--	(1,545,744)
Other income (expense):					
Interest income (expense),					
net.....	(62,749)	(71,986)	(32,271)	--	(167,006)
Equity in subsidiaries,					
net of taxes.....	(1,219,255)	(1,174,264)	--	2,393,519	--
Minority interest.....	--	--	23,868	--	23,868
Other, net.....	--	--	12,528	--	12,528
	(1,282,004)	(1,246,250)	4,125	2,393,519	(130,610)
Loss from continuing					
operations before income					
taxes.....	(1,282,004)	(1,246,250)	(1,541,619)	2,393,519	(1,676,354)
Benefit from income taxes...	(23,531)	(26,995)	(367,355)	--	(417,881)
Loss from continuing					
operations.....	(1,258,473)	(1,219,255)	(1,174,264)	2,393,519	(1,258,473)
Extraordinary item.....	--	--	--	--	--
Net loss.....	\$(1,258,473)	\$(1,219,255)	\$(1,174,264)	\$2,393,519	\$(1,258,473)
	=====	=====	=====	=====	=====

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
(Unaudited)  
Nine Months Ended September 30, 1999

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Cash flows from operating activities					
Net income (loss).....	\$ (282,823)	\$(114,091)	\$ 14,235	\$ 99,856	\$ (282,823)
Equity in earnings of subsidiaries.....	114,091	(14,235)	--	(99,856)	--
Other adjustments and changes.....	13,600	29,392	1,532,261	--	1,575,253
	-----	-----	-----	-----	-----
Net cash provided by (used in) operations.....	(155,132)	(98,934)	1,546,496	--	1,292,430
	-----	-----	-----	-----	-----
Cash flows from investing activities					
Short-term investments.....	--	--	(24,461)	--	(24,461)
Acquisitions of businesses, net of cash acquired.....	--	--	(1,181,832)	--	(1,181,832)
Capital expenditures.....	--	--	(876,900)	--	(876,900)
Proceeds from sale of assets...	--	--	502,681	--	502,681
Other, net.....	--	--	(37,022)	--	(37,022)
	-----	-----	-----	-----	-----
Net cash used in investing activities.....	--	--	(1,617,534)	--	(1,617,534)
	-----	-----	-----	-----	-----
Cash flows from financing activities					
Proceeds from issuance of long-term debt.....	3,606,510	--	164,443	--	3,770,953
Principal payments on long-term debt.....	(2,942,577)	(148,427)	(397,327)	--	(3,488,331)
Proceeds from exercise of common stock options and warrants.....	175,444	--	--	--	175,444
(Increase) decrease in intercompany and investments, net.....	(644,258)	298,388	345,870	--	--
	-----	-----	-----	-----	-----
Net cash provided by financing activities.....	195,119	149,961	112,986	--	458,066
	-----	-----	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents...	--	--	2,027	--	2,027
	-----	-----	-----	-----	-----
Increase in cash and cash equivalents.....	39,987	51,027	43,975	--	134,989
Cash and cash equivalents at beginning of period.....	27,726	(48,578)	107,725	--	86,873
	-----	-----	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 67,713	\$ 2,449	\$ 151,700	\$ --	\$ 221,862
	=====	=====	=====	=====	=====

## WASTE MANAGEMENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
(Unaudited)  
Nine Months Ended September 30, 1998

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Cash flows from operating activities:					
Net loss.....	\$ (834,187)	\$(736,930)	\$ (588,491)	\$ 1,325,421	\$ (834,187)
Equity in earnings of subsidiaries.....	736,930	588,491	--	(1,325,421)	--
Other adjustments and charges.....	27,275	(14,842)	2,143,444	--	2,155,877
Net cash provided by (used in) operating activities.....	(69,982)	(163,281)	1,554,953	--	1,321,690
Cash flows from investing activities:					
Short-term investments.....	--	--	58,323	--	58,323
Acquisitions of businesses, net of cash acquired.....	--	--	(1,735,835)	--	(1,735,835)
Capital expenditures.....	--	--	(1,091,104)	--	(1,091,104)
Proceeds from sale of assets...	--	--	411,322	--	411,322
Acquisition of minority interests.....	--	--	(887,849)	--	(887,849)
Other, net.....	--	--	19,970	--	19,970
Net cash used in investing activities.....	--	--	(3,225,173)	--	(3,225,173)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt.....	4,002,318	--	834,577	--	4,836,895
Principal payments on long-term debt.....	(2,105,000)	(586,425)	(1,226,487)	--	(3,917,912)
Cash dividends.....	(1,180)	(82,060)	--	--	(83,240)
Net proceeds from issuance of common stock.....	203,876	--	--	--	203,876
Proceeds from sale of treasury stock.....	--	739,161	--	--	739,161
Proceeds from exercise of common stock options and warrants.....	134,776	--	--	--	134,776
(Increase) decrease in intercompany and investments, net.....	(2,156,579)	15,533	2,141,046	--	--
Other, net.....	--	--	(22,256)	--	(22,256)
Net cash provided by financing activities.....	78,211	86,209	1,726,880	--	1,891,300
Effect of exchange rate changes on cash and cash equivalents...	--	--	1,650	--	1,650
Increase (decrease) in cash and cash equivalents.....	8,229	(77,072)	58,310	--	(10,533)
Cash and cash equivalents at beginning of period.....	14,630	42,630	132,682	--	189,942
Cash and cash equivalents at end of period.....	\$ 22,859	\$ (34,442)	\$ 190,992	\$ --	\$ 179,409
	=====	=====	=====	=====	=====

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

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

- the Company's ability to stabilize its accounting systems and procedures.
- the Company's ability to successfully close its accounting records and report 1999 annual results in accordance with year end audit procedures.
- the Company's ability to successfully integrate the operations of acquired companies with its existing operations, including risks and uncertainties relating to its ability to achieve projected earnings estimates, achieve administrative and operating cost savings and anticipated synergies, rationalize collection routes, and generally capitalize on its asset base and strategic position through its strategy of decentralized decision making; and the risks and uncertainties regarding government-forced divestitures.
- the Company's ability to continue its expansion through the acquisition of other companies, including, without limitation, risks and uncertainties concerning the availability of desirable acquisition candidates, the availability of debt and equity capital to the Company to finance acquisitions, the ability of the Company to accurately assess the prior existing liabilities and assets of acquisition candidates and the restraints imposed by federal and state statutes and agencies respecting market concentration and competitive behavior.
- the effect of competition on the Company's ability to maintain margins on existing or acquired operations, including uncertainties relating to competition with government owned and operated landfills which enjoy certain competitive advantages from tax-exempt financing and tax revenue subsidies.
- the potential impact of environmental and other regulation on the Company's business, including risks and uncertainties concerning the ultimate cost to the Company of complying with closure requirements and post-closure liabilities associated with its landfills and other environmental liabilities associated with disposal at third party landfills and the ability to obtain and maintain permits necessary to operate its facilities, which may impact the life, operating capacity and profitability of its landfills and other facilities.
- the impact of pending or threatened litigation and/or governmental inquiries involving the Company, including any potential governmental review or litigation relating to the special charges and adjustments to expenses recorded by the Company for the period ending September 30, 1999.
- the quantification and accounting treatment of costs relating to the Company's determination to terminate as of October 31, 1999 the WM Holdings defined pension benefit plan.
- the potential changes in estimates from ongoing analysis of site remediation requirements, closure and post-closure issues, compliance and other audits and regulatory developments.
- the effectiveness of changes in management and the ability of the Company to retain qualified individuals to serve in senior management positions.
- the uncertainties relating to the Company's proposed strategic initiative, including the Company's ability to obtain permanent amendments to its bank credit facilities to allow for a revision of financial covenants and the divestiture of assets, and the willingness of prospective purchasers to purchase the

assets the Company identifies as divestiture candidates on terms the Company finds acceptable, the timing and terms on which such assets may be sold, uncertainties relating to regulatory approvals and other factors affecting the ability of prospective purchasers to consummate such transactions, including the availability of financing and uncertainties relating to the impact of the proposed strategic initiative on the Company's credit ratings and consequently the availability and cost of debt and equity financing to the Company.

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

## INTRODUCTION

### STRATEGIC PLAN

During the third quarter, the Company's Board of Directors adopted a strategic plan that is intended to enhance value for its shareholders, customers, and employees. Key elements of the plan are:

- A refocus on operating excellence within its North American solid waste business.
- Divestiture of non-strategic or under-performing assets, including its international assets, substantially all of its non-core assets and up to 10 percent of the Company's solid waste assets.
- More disciplined capital allocation, focusing on reduction of debt, selected tuck-in acquisitions, and possible repurchase of shares.
- An objective of obtaining and sustaining investment grade characteristics.

Consistent with this highly focused strategy, the Company has actively marketed the sale of its international operations and expects the sale of these assets to be completed in the first half of 2000. Likewise, the Company has received strong interest for several of its non-core and under-performing North American Solid Waste Management ("NASW") businesses.

The Company continues to focus on bringing more discipline and accountability to its operations, including carefully managing expenses within its decentralized business model. This strategy incorporates a commitment to serve customers by providing employees the tools necessary to perform their jobs, including updated and more efficient information systems. The Company is also implementing a capital allocation program that emphasizes operational efficiencies that will lead to improved profitability.

### GENERAL

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

Company is proceeding to divest its international assets, substantially all of its non-core assets and up to ten percent of Company's North American solid waste assets.

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

Operating expenses from waste management operations include direct and indirect labor and the related taxes and benefits, fuel, maintenance and repairs of equipment and facilities, tipping fees paid to third party disposal facilities, property taxes, and accruals for future landfill final closure and post-closure costs. Certain direct development expenditures are capitalized and amortized over the estimated useful life of a site as capacity is consumed, and include acquisition, engineering, upgrading, construction, capitalized interest, and permitting costs. All indirect development expenses, such as administrative salaries and general corporate overhead, are expensed in the period incurred. At times, the Company receives reimbursements from insurance carriers relating to past and future remedial, defense and tort claim costs at a number of the Company's sites. Such recoveries are included in operating costs and expenses as an offset to environmental expenses.

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

Depreciation and amortization include (i) amortization of the excess of cost over net assets of acquired businesses on a straight-line basis over a period not greater than 40 years commencing on the dates of the respective acquisitions; (ii) amortization of other intangible assets on a straight-line basis from 3 to 40 years; (iii) depreciation of property and equipment on a straight-line basis from 3 to 40 years; and (iv) amortization of landfill airspace on a units-of-production method as landfill airspace is consumed over the estimated useful life of a site. The useful life of a site is determined by the permitted airspace and expansion airspace when the success of obtaining such expansion is considered probable. Effective for the third quarter of 1999, the Company applied a newly defined, more stringent set of criteria for evaluating the probability of obtaining expansion to landfill airspace at existing sites are as follows:

- Personnel are actively working to obtain land use, 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;
- The respective landfill owners or the Company has a legal right to use or obtain land to be included in the expansion plan;
- There are no significant known community, business, or political restrictions or 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 have been estimated based on conceptual design.

Additionally, to include airspace from an expansion effort, the expansion permit application must generally be expected to be submitted within one year, and the expansion permit must be expected to be received within two to five years. Exceptions to any criteria must be obtained through a landfill specific approval process that includes an approval from the Company's Chief Financial Officer and final review by the Audit Committee of the Board of Directors.

As disposal volumes are affected by seasonality and competitive factors, airspace amortization varies from period to period due to the changes in volumes of waste disposed at the Company's landfills.

#### THIRD QUARTER 1999 ACCOUNTING REVIEW CHARGES AND ADJUSTMENTS

During the third quarter of 1999, the Company initiated a comprehensive internal review of its accounting records, systems, processes and controls at the direction of its Board of Directors. As discussed below, the Company experienced significant difficulty in the integration and conversion of information and accounting systems subsequent to the WM Holdings Merger, including certain financial systems and the billing systems. As a result of these systems and process issues, and other issues raised during the third quarter 1999 accounting review, certain charges and adjustments were recorded, as discussed below. As a result of the review, the Company recorded certain adjustments which had a material effect on its financial statements for the three and nine months ended September 30, 1999. The following is a summary of charges recorded during the third quarter of 1999 (in thousands):

Held for sale asset adjustments	\$ 414,275
Account reconciliations	347,668
Increase to allowance for doubtful accounts and other accounts receivable adjustments	211,483
Asset impairments (excluding held for sale adjustments)	178,309
Insurance reserves and other insurance adjustments	147,868
Legal, severance and consulting accruals	141,999
Loss contract reserve adjustments	49,338
Increases in environmental reserves	48,983
Merger and acquisition related costs	31,568
Other	191,026
	-----
Impact of charges before income tax benefit	1,762,517
Income tax benefit	(536,756)
	-----
After-tax charges	\$1,225,761
	=====

The charges described above, which include both recurring and nonrecurring items that have been aggregated for this presentation for convenience, were reflected in the Company's financial statements for the three months and the nine months ended September 30, 1999, as follows (in thousands):

	INCLUDES RECURRING & NONRECURRING ITEMS
	-----
Operating revenues.....	\$ (30,928)
	-----
Costs and expenses:	
Operating (exclusive of depreciation and amortization shown below).....	566,417
General and administrative.....	401,729
Depreciation and amortization.....	59,628
Merger and acquisition related costs.....	31,568
Asset impairments and unusual items.....	680,284
Loss from continuing operations held for sale, net of minority interest.....	--
	-----
	1,739,626
	-----
Loss from operations.....	(1,770,554)
	-----
Other income(expense):	
Interest expense.....	702
Interest income.....	13,359
Minority interest.....	(288)
Other income (expense).....	(5,736)
	-----
	8,037
	-----
Loss before income taxes and extraordinary items.....	(1,762,517)
Benefit from income taxes.....	536,756
	-----
Net loss.....	\$(1,225,761)
	=====

The Company recorded significant adjustments in the quarter ended September 30, 1999, certain of which affect account balances applicable to periods prior to the quarter ended September 30, 1999. Accordingly, the Company, after consultation with its independent public accountants, has concluded that its internal controls for the preparation of interim financial information did not provide an adequate basis for its independent public accountants to complete reviews of the quarterly data for the quarters in the nine-month period ended September 30, 1999. As discussed above, the Company believes that certain charges that were recorded in the quarter ended September 30, 1999 may relate to individual prior periods; however, the Company does not have sufficient information to identify all specific charges attributable to prior periods. Based on its analysis of available information, nothing has come to the attention of management, and the Company's independent accountants have advised management that nothing has come to their attention, to indicate that the impact of these charges would have been material in any year prior to 1999. If identification of all specific charges attributable to individual prior periods was possible, the Company believes that the reported results of operations for the quarter ended September 30, 1999 would have been higher than presented in these financial statements. The Company has been advised by its independent public accountants that their report on the Company's December 31, 1999 financial statements will specifically refer to the matters discussed above regarding the interim periods within 1999.

See Note 1 to the condensed consolidated financial statements included elsewhere herein for additional discussion.

## RESULTS OF OPERATIONS

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

	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998		PERIOD TO PERIOD CHANGE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998	
	-----		-----	
STATEMENT OF OPERATIONS:				
Operating revenues.....	\$ 157,351	4.9%	\$ 397,297	4.2%
	-----		-----	
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	727,041	39.1	614,173	11.2
General and administrative.....	454,260	146.1	259,835	24.7
Depreciation and amortization.....	71,589	18.8	77,689	6.9
Merger and acquisition related costs....	(1,532,596)	(98.0)	(1,467,864)	(93.0)
Asset impairments and unusual items.....	13,332	2.0	33,082	5.0
Income from continuing operations held for sale, net of minority interest.....	(2,721)	(100.0)	(151)	(100.0)
	-----		-----	
	(269,095)	(5.6)	(483,236)	(4.9)
	-----		-----	
Income (loss) from operations.....	426,446	27.6	880,533	168.0
	-----		-----	
Other income (expense):				
Interest expense.....	(14,372)	(8.2)	(46,355)	(9.2)
Interest income.....	13,085	180.3	7,063	32.5
Minority interest.....	(28,565)	(119.7)	(3,408)	(23.8)
Other income.....	(3,837)	(30.6)	(83,692)	(68.1)
	-----		-----	
	(33,689)	(25.8)	(126,392)	(33.9)
	-----		-----	
Loss before income taxes and extraordinary item.....	392,757	23.4	754,141	84.1
Provision for (benefit from) income taxes.....	82,057	19.6	206,677	309.0
	-----		-----	
Loss before extraordinary item.....	310,700	24.7	547,464	65.9
Extraordinary item, net of taxes.....	--	--	3,900	100.0
	-----		-----	
Net loss.....	\$ 310,700	24.7%	\$ 551,364	66.1%
	=====		=====	
SUPPLEMENTARY DATA:				
EBITDA(1).....	\$ 498,035	42.8%	\$ 958,222	159.5%

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

See Management's Discussion and Analysis - Introduction - Third Quarter 1999 Accounting Review Charges and Adjustments.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
STATEMENT OF OPERATIONS:				
Operating revenues.....	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below).....	76.1	57.3	62.4	58.5
General and administrative.....	22.6	9.6	13.4	11.2
Depreciation and amortization.....	13.3	11.8	12.3	12.0
Merger and acquisition related costs.....	0.9	48.3	1.1	16.8
Asset impairments and unusual items.....	20.1	20.6	7.2	7.1
Income from continuing operations held for sale, net of minority interest.....	--	0.1	--	--
	133.0	147.7	96.4	105.6
Income (loss) from operations.....	(33.0)	(47.7)	3.6	(5.6)
Other income (expense):				
Interest expense.....	(5.6)	(5.4)	(5.6)	(5.4)
Interest income.....	0.6	0.2	0.3	0.2
Minority interest.....	(0.1)	0.7	(0.2)	(0.1)
Other income.....	0.3	0.4	0.4	1.3
	(4.8)	(4.1)	(5.1)	(4.0)
Loss before income taxes and extraordinary item.....	(37.8)	(51.8)	(1.5)	(9.6)
Provision for (benefit from) income taxes.....	(9.9)	(12.9)	1.4	(0.7)
Loss before extraordinary item.....	(27.9)	(38.9)	(2.9)	(8.9)
Extraordinary item, net of taxes.....	--	--	--	--
Net loss.....	(27.9)%	(38.9)%	(2.9)%	(8.9)%
	=====	=====	=====	=====
SUPPLEMENTARY DATA:				
EBITDA(1).....	(19.7)%	(35.9)%	15.9%	6.4%

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

See Management's Discussion and Analysis - Introduction - Third Quarter 1999 Accounting Review Charges and Adjustments.

## RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

## Operating Revenues

The Company's principal operations are NASW, which include all solid waste activities, such as collection, transfer operations, recycling and disposal. The NASW disposal operations encompass solid waste and hazardous waste landfills, as well as waste-to-energy facilities. In addition, the Company operates outside of North America in activities similar to its NASW operations ("WM International"). As discussed above, the Company's Board of Directors has adopted a plan to divest WM International. Furthermore, the Company performs certain non-solid waste services primarily in North America such as hazardous waste management, low-level and other radioactive waste management, and waste-fuel powered independent power facilities. A substantial portion of these assets are also being divested in accordance with the Company's recently adopted strategic plan. Through June 30, 1999, the Company's non-solid waste services also included non-land disposal hazardous waste operations and on-site industrial cleaning services. However, on June 30, 1999, the Company sold a 51% interest in these operations to the French conglomerate Vivendi SA. The retained interest of 49% is being accounted for using the equity method of accounting.

For the three and nine months ended September 30, 1999, the Company's operating revenues increased \$157.4 million or 4.9% and \$397.3 million or 4.2%, respectively, as compared to the corresponding 1998 periods. The following table presents the operating revenues by reportable segment for the respective periods (dollars in millions):

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	1999		1998		1999		1998	
NASW.....	\$2,758.2	81.2%	\$2,595.5	80.2%	\$7,961.1	81.3%	\$7,554.5	80.4%
WM International.....	442.9	13.1	388.5	12.0	1,200.7	12.3	1,133.3	12.1
Non-solid waste.....	194.0	5.7	253.7	7.8	628.7	6.4	705.4	7.5
Operating revenues.....	\$3,395.1	100.0%	\$3,237.7	100.0%	\$9,790.5	100.0%	\$9,393.2	100.0%

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

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	1999		1998		1999		1998	
NASW:								
Collection.....	\$1,946.0	59.8%	\$1,785.1	58.5%	\$ 5,631.0	59.7%	\$ 5,158.9	58.7%
Disposal.....	837.5	25.7	850.4	27.9	2,437.6	25.9	2,348.0	26.7
Transfer.....	309.0	9.4	258.5	8.5	889.4	9.4	779.0	8.9
Recycling and other.....	166.3	5.1	155.4	5.1	467.4	5.0	503.0	5.7
	3,258.8	100.0%	3,049.4	100.0%	9,425.4	100.0%	8,788.9	100.0%
Intercompany.....	(500.6)		(453.9)		(1,464.3)		(1,234.4)	
Operating revenues...	\$2,758.2		\$2,595.5		\$ 7,961.1		\$ 7,554.5	

The increase in operating revenues for the three and nine months ended September 30, 1999 for NASW operations, as compared to the respective prior year periods, is primarily attributable to the acquisition of solid waste businesses, partially offset by the divestiture of certain solid waste operations. Acquisitions of NASW businesses during 1999 and the full year effect of such acquisitions completed during 1998 accounted for an increase in operating revenues of approximately \$155.4 million for the three months ended September

30, 1999 and \$476.6 million for the nine months ended September 30, 1999 as compared to the prior year periods. NASW operating revenues also increased from internal growth of comparable operations of 2.9% and 2.8% for the three and nine months ended September 30, 1999, respectively, as compared to the prior year periods. For

the three and nine months ended September 30, 1999, NASW operating revenues decreased as a result of the divestiture of solid waste operations with operating revenues of \$68.1 million and \$235.5 million in the respective prior year periods. NASW comparable operating revenues for the three and nine months ended September 30, 1999, were also reduced by approximately \$34.1 million, due to the renewal of a biosolids management contract, which now excludes a capital cost recovery element. Included in the internal revenue growth of NASW operating revenues for the three and nine months ended September 30, 1999, are revenue reductions of \$30.9 million related to the third quarter 1999 accounting review discussed above.

NASW operating revenues in the three and nine months ended September 30, 1999 have been detrimentally affected by volumes that were under expectations and difficulties in integration of the operations of the Company after the WM Holdings Merger and Eastern Merger, including the Company's information systems and work flow related thereto. Certain billings were incorrect and/or delayed contributing to an increase in uncollected receivables in the third quarter of 1999, and an increase in the allowance for doubtful accounts. The Company has added resources to address the collection of its receivables. In addition, the Company believes that its internal growth may have been detrimentally affected by certain inflexibilities in its pricing strategy and lack of responsiveness of that strategy to localized competitive conditions, resulting in lost volumes. The Company intends to continue to review its pricing strategy to enhance its competitiveness in future periods.

WM International's operating revenues for the three and nine months ended September 30, 1999 increased as a result of internal growth of 0.4% and 2.2%, respectively, and from acquisitions of solid waste operations with revenues of \$70.8 million and \$99.1 million, respectively, as compared to the corresponding prior year periods. Additionally, the WM International operating revenues increased by \$4.6 million for the nine months ended September 30, 1999 as compared to the prior year period as a result of increased landfill disposal taxes in certain countries, which are passed through in disposal rates. These increases were offset by the disposition of operations with operating revenues of \$5.1 million and \$40.7 million in the three and nine months ended September 30, 1998, respectively. Furthermore, foreign currency fluctuations of \$12.7 million and \$19.1 million decreased operating revenues for the three and nine months ended September 30, 1999 respectively, as compared to the respective 1998 periods.

Operating revenues for non-solid waste operations has increased in the three months ended September 30, 1999, as compared to the prior year period due to internal growth and the acquisition of a geosynthetics manufacturing and installation service company after considering the impact of the sale of a 51% interest in certain non-solid waste operations as previously discussed herein. The Company expects decreasing operating revenues from its non-solid waste operations in future periods, as the Company has sold its industrial services and hazardous business units as discussed above and is actively marketing other non-solid waste operations pursuant to the strategic plan previously discussed.

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

Operating costs and expenses increased \$727.0 million or 39.1% and \$614.2 million or 11.2% for the three and nine months ended September 30, 1999, respectively, as compared to the corresponding periods of 1998. As a percentage of operating revenues, operating costs and expenses increased from 57.3% to 76.1% for the three months ended September 30, 1998 and 1999, respectively, and increased from 58.5% to 62.4% for the nine months ended September 30, 1998 and 1999, respectively. The increase in operating costs and expenses in the current year periods includes significant adjustments related to the third quarter 1999 accounting review discussed above, some of which are recurring in nature and should be expected in future periods. These accounting review adjustments consisted of increases in insurance reserves, environmental reserves, loss contract provisions and adjustments resulting from completing account reconciliations and from other items. The remaining changes in operating costs and expenses resulted in increases of \$160.6 million and \$47.8 million for the three and nine months ended September 30, 1999, respectively, as compared to the prior year periods. Operating costs and expenses were favorably impacted by \$22.0 million in the third quarter of 1998 due to the settlement of a royalty dispute in excess of the accrued amount, the downward revision of environmental related liabilities of \$8.0 million and the reduction of other liabilities of approximately \$12.0 million. After consideration of these items, operating costs and expenses increased by \$118.6 million for the three months ended September 30, 1999, as compared to 1998, due to the costs related to the increase in

revenues attributable to acquisitions and internal growth, net of divestitures, as discussed above. In addition, the Company realized certain reductions in costs and improvements in operating efficiencies from its acquisition program, including the WM Holdings Merger. Additionally, the Company realized improvement in NASW operating costs and expenses due to the increased utilization of internal disposal capacity, which is measured as a percentage of total disposal costs.

Operating costs and expenses have decreased \$36.9 million for the nine months ended September 30, 1999 as compared to 1998 due to the net impact of reductions in certain environmental and other liabilities during the respective periods. For the nine months ended September 30, 1999, operating costs and expenses were favorably impacted by \$58.0 million of downward revisions in environmental liabilities relating to certain of the Company's landfill operations, consisting of \$35.0 million in WM International and \$23.0 million in NASW. Additionally during the nine month 1999 period, the Company revised other liabilities downward by \$19.8 million resulting in a reduction of operating costs and expenses. Similarly, operating costs and expenses were favorably impacted for the nine months ended September 30, 1998 by \$40.9 million largely attributable to the reduction of environmental, royalty settlement and non-environmental liabilities referred to in the preceding paragraph. In addition, operating costs and expenses were favorably impacted by \$34.9 million for the nine months ended September 30, 1998, as compared to the respective 1999 period, attributable to the recovery of settlements from various insurance carriers related to environmental claims. The remaining increase in operating costs and expenses of \$49.8 million for the nine months ended September 30, 1999, as compared to the prior year period, is attributable to the costs associated with the change in operating revenues from acquisitions, internal growth and divestitures, as discussed above, as well as the impact of certain cost reductions and efficiencies from the WM Holdings Merger and other acquisitions and the increased utilization of internal disposal capacity.

As part of its on-going operations, the Company reviews its reserve requirements for remediation and other environmental matters based on an analysis of, among other things, the regulatory context surrounding landfills and remaining airspace capacity in light of changes to operational efficiencies. Accordingly, revisions to reserve requirements may result in upward or downward adjustments to income from operations in any given period.

#### General and Administrative

General and administrative expenses increased \$454.3 million or 146.1% and \$259.8 million or 24.7% for the three and nine months ended September 30, 1999, respectively, as compared to the corresponding periods of 1998. As a percentage of operating revenues, the Company's general and administrative expense increased from 9.6% to 22.6% for the three months ended September 30, 1998 and 1999, respectively, and increased from 11.2% to 13.4% for the nine months ended September 30, 1998 and 1999, respectively.

As discussed above, general and administrative expenses during the three and nine months ended September 30, 1999, include adjustments related to the third quarter 1999 accounting review, some of which are recurring in nature and should be expected in future periods. These significant adjustments include the increase in the allowance for doubtful accounts, provision for certain consulting and severance costs, corrections due to the account reconciliation process and other adjustments.

For the three months ended September 30, 1999, general and administrative costs include an increase in the provision for doubtful accounts of \$12.8 million in addition to the amount adjusted as part of the third quarter accounting review. The remaining increase of \$39.8 million is attributable to the costs related to the increased administration from acquisitions and internal growth net of divestitures, similar to the impact discussed in operating costs and expenses discussed in operating revenues above.

General and administrative costs have increased related to acquisitions and internal growth, net of divestitures, as discussed in operating revenues above. However, the Company experienced significant cost reductions related to the elimination of duplicate corporate administrative functions from the WM Holdings Merger primarily related to the first six months of 1999. Such cost reductions were offset by increased administrative costs in field operations, particularly in the third quarter of 1999, attributable to increased costs to perform billing, collection and other administrative functions.

## Depreciation and Amortization

Depreciation and amortization expense increased \$71.6 million or 18.8% and \$77.7 million or 6.9% for the three and nine months ended September 30, 1999, respectively, as compared to the respective periods in 1998. As a percentage of operating revenues, depreciation and amortization expense increased from 11.8% to 13.3% for the three months ended September 30, 1998 and 1999, respectively, and increased from 12.0% to 12.3% for the nine months ended September 30, 1998 and 1999, respectively. As discussed above, depreciation and amortization expense during the three and nine months ended September 30, 1999, include adjustments related to the third quarter 1999 accounting review, some of which are recurring in nature and should be expected in future periods. These significant adjustments are due to the account reconciliation process and other adjustments, including adjustments to increase landfill amortization expense as a result of the comprehensive review of the NASW landfills to evaluate potential landfill expansion projects. The increase in landfill amortization as a result of this review was \$11.7 million in the third quarter of 1999.

For the three months ended September 30, 1999, depreciation and amortization includes \$0.6 million of amortization primarily related to the acquisition of the minority interest of WM International. Excluding the effect of increases in landfill amortization rates as a result of the third quarter 1999 accounting review discussed above, landfill amortization for the three months ended September 30, 1999, was \$12.1 million less than in the same period in 1998 as a result of net reductions in landfill amortization rates applied in 1999, compared to 1998. Such rate reductions were the result of the evaluation of various facts and circumstances throughout the intervening quarters. The remaining increase of \$23.5 million is attributable to the depreciation and amortization related to the acquisitions, internal growth and divestitures, as discussed in operating revenues above.

For the nine months ended September 30, 1999, depreciation and amortization includes \$6.4 million of amortization primarily related to the 1998 acquisitions of the minority interests of Wheelabrator Technologies, Inc. and Waste Management International plc. Excluding the effect of increases in landfill amortization rates as a result of the third quarter 1999 accounting review discussed above, landfill amortization for the nine months ended September 30, 1999, was \$32.8 million less than in the same period in 1998 as a result of net reductions in landfill amortization rates applied in 1999, compared to 1998. Such rate reductions were the result of the evaluation of various facts and circumstances throughout the intervening quarters and included approximately \$19.5 million attributable to the impact of accelerated biodegradation at certain of the Company's landfills. At certain of the Company's landfills that operate in geological locations conducive to accelerated biodegradation, landfill amortization had been adjusted to reflect longer estimated useful lives. As part of the third quarter accounting review, a more conservative evaluation has been made regarding implementation of bioreactors at its landfills, resulting in an increase in landfill amortization expense in the third quarter of 1999 which is not material to the consolidated financial statements. The remaining increase of \$44.5 million is attributable to acquisitions of NASW businesses, internal growth and divestitures, as discussed in operating revenues above.

## Merger and Acquisition Related Costs, Asset Impairments and Unusual Items

In connection with the WM Holdings Merger and the Eastern Merger, the Company incurred significant merger costs and unusual items in the third and fourth quarters of 1998 as described in the Company's Current Report on Form 8-K dated September 17, 1999. Furthermore, the Company recorded \$19.1 million and \$98.8 million of merger costs for the three and nine months ended September 30, 1999, respectively, of costs that are transitional in nature related to these mergers. The Company incurred \$12.5 million in the three and nine months ended September 30, 1999 related to the purchase of a business that when integrated into the Company's operations resulted in the closure of certain Company owned facilities and relocation of certain of the Company's administrative functions. The merger cost amount for the nine months ended September 30, 1999 also includes cumulative offsetting adjustments totaling \$15.6 million primarily to conform accounting methods of the Company's ash monofil landfills to that of the Company's solid waste landfills.

The Company is in the process of settling its obligations under the WM Holdings defined benefit plan which was terminated as of October 31, 1999 (although benefit accruals were ceased as of December 31, 1998) and currently intends to liquidate the plan's assets and settle its obligations to participants. The actual charge to expense of settling the Plan will be recorded as settlements occur. However, the Company has included \$9.8 million in asset impairments and unusual items for the nine months ended September 30, 1999 related to the current year recognition of past service costs of this plan and will incur similar charges in future periods until all participants have been paid the termination benefits. Additionally, the Company has recorded \$84.4 million in the third quarter of 1999 related to the reassessment of ultimate losses for certain legal issues related to the WM Holdings Merger. The remainder of the asset impairments and unusual items relates to the third quarter 1999 accounting review discussed above.

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

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

For the three and nine months ended September 30, 1998, respectively, the Company recorded \$1,564.2 million and \$1,579.1 million of merger and acquisition related costs primarily related to WM Holdings Merger.

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

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

#### Loss from Operations

Loss from operations was \$1.1 billion for the three months ended September 30, 1999 and income from operations was \$356.3 million for the nine months ended September 30, 1999 as compared to a loss of \$1.5 billion and \$524.2 million for the corresponding periods of 1998.

## Other Income and Expenses

Other income and expenses consists of interest expense, interest income, other income and minority interest. Although the Company has experienced lower borrowing rates as compared to prior years, interest costs, which includes amounts capitalized, increased from 1998 to 1999 due to increases in the Company's outstanding indebtedness for each period. As a result of the expected charges in the Company's primary bank credit facilities (see Note 3), it is likely that the borrowing rates in the foreseeable future will be higher than the rates previously experienced by the Company. Capitalized interest was \$6.5 million and \$29.7 million for the three and nine months ended September 30, 1999, respectively, and \$10.9 million and \$29.5 million for the corresponding periods of 1998. Included as other income for the nine months ended September 30, 1998 is a gain of approximately \$38.0 million from the sale of a waste-to-energy facility in Hamm, Germany in January 1998.

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

## Income Taxes

The Company recorded a benefit from income taxes of \$335.8 million and a provision for income taxes of \$139.8 million for the three and nine months ended September 30, 1999, respectively, and a benefit from income taxes of \$417.9 million and \$66.9 million for the corresponding periods of 1998. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the nine months ended September 30, 1999 is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, non-deductible costs associated with the impairment of certain foreign businesses and other third quarter 1999 charges and adjustments as disclosed in Note 1, and the cost associated with remitting the earnings of foreign subsidiaries, which are no longer considered permanently reinvested.

## Net Loss

For the three and nine months ended September 30, 1999, net loss was \$947.8 million and \$282.8 million or \$1.53 and \$0.46 per share on a diluted basis, respectively, as compared to a net loss of \$1,258.5 million and \$834.2 million or \$2.11 and \$1.44 per share on a diluted basis for the respective prior year periods.

## LIQUIDITY AND CAPITAL RESOURCES

The Company operates in an industry that requires a high level of capital investment. The Company's capital requirements primarily stem from (i) its working capital needs for its ongoing operations, (ii) capital expenditures for cell construction and expansion of its disposal sites, as well as for new trucks and equipment for its collection operations, and (iii) business acquisitions. The Company's strategy is to meet these capital needs first from internally generated funds and secondly from various financing sources available to the Company, including the incurrence of debt and in the past through the issuance of its common stock. It is further part of the Company's strategy to minimize working capital while maintaining available commitments under bank credit agreements to fund any capital needs in excess of internally generated cash flow. The Company had unused and available credit capacity under its domestic bank facilities of \$1.9 billion at September 30, 1999.

On May 21, 1999, the Company completed a private placement of \$1.15 billion of its senior notes, including \$200 million principal amount of 6% senior notes due 2001 at an issue price of 99.966, \$500 million principal amount of 6 7/8% senior notes due 2009 for an issue price of 99.674, \$250 million principal amount of 7 3/8% senior notes due 2029 for an issue price of 99.595 and an additional \$200 million principal amount of 6 1/2% senior notes due 2004 for an issue price of 99.721.

The Company has a scheduled maturity of \$200 million of senior notes on November 15, 1999. The Company is expecting to repay these senior notes with funds available from its \$3 billion syndicated loan

facility. Additionally, based on the current market price of the Company's common stock, the Company expects the holders of the 5.75% convertible subordinated notes due 2005 to exercise a redemption option that becomes available March 15, 2000. The total amount expected to be repaid related to these notes will be approximately \$461 million at March 31, 2000, and is expected to be repaid with funds available from the Company's \$3 billion syndicated loan facility.

As of September 30, 1999, the Company had a working capital deficit of \$1.1 billion (a ratio of current assets to current liabilities of 0.82:1) and a cash balance of \$221.9 million which compares to a working capital deficit of \$412.3 million (a current ratio of 0.90:1) and a cash balance of \$86.9 million as of December 31, 1998. For the nine months ended September 30, 1999 and 1998, respectively, net cash provided by operating activities was \$1.3 billion for both periods and net cash provided by financing activities was \$458.1 million in 1999, as compared to \$1.9 billion in 1998. In the nine months ended September 30, 1999, cash used to acquire businesses for \$1.2 billion and capital expenditures of \$876.9 million were primarily financed by cash from operating activities, proceeds from sale of assets of \$502.7 million and net increased borrowings of \$282.6 million. In the nine months ended September 30, 1998, capital expenditures of \$1.1 billion and acquisitions of businesses and outstanding minority interests of \$2.6 billion were primarily financed through net cash from operations, proceeds from sale of assets of \$411.3 million and net cash from financing activities. The Company has initiated a thorough review of its fleet of vehicles to ensure that the fleet will operate at maximum efficiency in the near future and expects capital expenditures in future periods could exceed amounts incurred through the first nine months of 1999. However, the Company expects to decrease its spending related to acquisitions in the year 2000 in accordance with its recently announced strategic plan.

From the time of the WM Holdings Merger, which was consummated in July 1998, the Company adopted a decentralized billing system for the merged entity (as opposed to the centralized system employed by WM Holdings prior to the WM Holdings Merger). The billing system conversion has now been completed. However, as a result of this system conversion, coupled with the significant merger integration problems, the Company's accounts receivable level increased significantly and its days sales outstanding ("DSOs") increased from 66 days at September 30, 1998 to a height of 73 days at January 31, 1999. However, by September 30, 1999, the DSOs improved to 68 days, excluding the impact of the receivables related adjustments included in the third quarter 1999 charge discussed above.

During the first nine months of 1999 the Company paid approximately \$419 million for costs directly or indirectly related to the WM Holdings Merger and Eastern Merger, the majority of which were accrued as liabilities as of December 31, 1998. Consequently, the Company's net cash provided by operating activities for the first nine months of 1999 was significantly impacted by these, and to a lesser extent, other working capital issues. The Company contributed approximately \$43.4 million during the three months ended September 30, 1999, which is included in the above amounts, and expects payments of approximately \$185 million to be paid through 2000 relating to the termination of the WM Holdings defined benefit plan. Furthermore, the Company expects to fund additional merger and legal obligations of approximately \$470 million primarily over the next 15 months, including the settlement of the WM Holdings securities matter, which is expected to occur in the fourth quarter of 1999.

In the second quarter of 1999, the Company entered into an agreement to purchase all of the Canadian solid waste assets of Allied Waste Industries, Inc. ("Allied") that Allied acquired upon its acquisition of Browning-Ferris Industries, Inc. The purchase price of these assets was to be approximately \$501 million in cash. On November 8, 1999, the Company and Allied entered into revised agreements, which replace the original agreement.

Under the terms of the revised agreements, Allied has agreed to sell to the Company all of the shares of Browning-Ferris Industries Limited ("BFIL"), which owns the solid waste operations of Browning-Ferris in Canada, including collection operations, transfer stations, landfill operations and recycling facilities. Annual revenues generated from these operations are estimated to be approximately US \$176 million. Allied will continue to operate certain of the Canadian operations with total revenues estimated to be approximately US \$53 million that the Company is being required to divest by the Competition Bureau of Canada and market those operations for sale, on behalf of BFIL, after the closing. The sale of the BFIL shares is subject to

final approval pursuant to the Competition Act and the Investment Canada Act. Additionally, the Company has agreed to sell to Allied certain U.S. solid waste services assets with combined reported historical revenue of approximately \$132 million, including nine landfill operations, 19 collection operations, five transfer stations and a landfill operating contract. The sale of such assets is subject to final approval pursuant to the Hart-Scott Rodino Act. The Company expects to receive net cash proceeds as a result of the revised transactions.

During the third quarter, the Company experienced a decline in its public credit ratings which curtailed its access to the commercial paper market. As a result, commercial paper maturing during the third quarter was refinanced through borrowing under the Company's Syndicated Facility and Credit Facility. The Company does not expect that it will be in a position to reissue commercial paper in the foreseeable future, and remaining balances of commercial paper will be refunded through internal cash flow or with additional borrowings under existing bank facilities.

As a result of the charges and adjustments recorded in the third quarter of 1999, as discussed above, the Company would not have been in compliance as of September 30, 1999 with certain financial covenants as required by the Company's bank credit facilities. However, waivers were received on each of the Company's four bank agreements which enabled the Company to be in full compliance with, and have full access to its existing bank credit facilities. These waivers extend to November 25, 1999 with respect to the Euro facilities and to December 30, 1999 with respect to the Credit Facility and Syndicated Facility. The Company has entered into discussions with its banks regarding permanent amendments which will adjust the financial covenants, as well as amend other terms and conditions. Management believes that the permanent amendments will be in place by December 30, 1999. Should the Company be unsuccessful in obtaining these amendments from the banks prior to expiration of the waivers on December 30, 1999, then all borrowings and letters of credit outstanding would be considered current obligations, due upon demand by the banks. In addition, the Company would not have access to the unused portions of such lines which could impair its ability to meet ongoing working capital and other liquidity requirements. There can be no assurance that the Company will be successful in completing the amendments prior to December 31, 1999 or would be able to arrange alternate sources of liquidity to meet its obligations.

#### RECENT DEVELOPMENTS

As described in the Company's Current Report on Form 8-K dated October 20, 1999, John E. Drury, Richard J. Heckmann and Richard D. Kinder resigned as members of the Board of Directors.

On November 10, 1999 the Company announced the selection, effective November 10, 1999, of A. Maurice Myers as Chairman of the Board, Chief Executive Officer and President of the Company. Mr. Myers, 59, joins Waste Management from Yellow Corporation, where he has been Chairman, CEO and President since April 1996. Yellow Corporation is the parent company of Yellow Freight, one of the nation's oldest and largest trucking companies. Under Mr. Myers' leadership, Yellow Corporation returned to profitability in just one year, after three years of negative earnings. Mr. Myers also implemented a productivity initiative and a restructuring of the company's largest subsidiary, Yellow Freight, dividing that company into five regionally-based business units and reducing operating costs, while significantly increasing the company's ability to meet changing customer needs. Mr. Myers is a recognized leader in integrating information technology with business operations. He directed the re-engineering of Yellow Corporation's information systems, providing the company with greater financial accountability and a distinct competitive advantage over other freight haulers. In 1999, Yellow Corporation was named one of the nation's top 100 Information Technology companies, the only freight transportation company to be so recognized. Prior to joining Yellow Corporation in 1996, Mr. Myers served as President and Chief Operating Officer of America West Airlines and is credited in part for that company's financial turnaround. Mr. Myers also served as President and CEO of Aloha Airlines, and held a senior management position with Continental Airlines.

Additionally, during the third quarter of 1999, the Board of Directors formed an Executive Committee which, subject to certain limitations, may perform all duties of the Board of Directors between the Board's regularly scheduled meetings. The Executive Committee consists of Roderick M. Hills, Ralph V. Whitworth,

Robert S. Miller and Jerome P. York. Effective November 10, 1999, A. Maurice Myers was added to the Executive Committee.

#### SEASONALITY AND INFLATION

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

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

#### YEAR 2000 DATE CONVERSION

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

In addition to its critical business systems, the Company began addressing the issue of the Year 2000 impact on certain of its embedded technologies in 1997. For example, incinerators and monitoring wells which are used in the Company's operations both have computer chips embedded within them, and the Company is upgrading those chips to avoid any malfunctioning of the chips as a result of the Year 2000. Additionally, the Company has undertaken to assess and remediate where necessary, the embedded technologies in the Company's facilities and business equipment. The Company expects such upgrades, assessments and remediations to be complete by the end of 1999. The Company has taken, and continues to take steps to resolve Year 2000 readiness issues that may be created by customers, suppliers and financial institutions with whom the Company does business. However, there can be no guarantee that other entities will be Year 2000 ready.

The Company is in the process of establishing a worst case scenario and written contingency plan to address issues that could arise should the Company or if any of its suppliers or customers not be prepared to accommodate Year 2000 issues timely. Additionally, the Company will maintain a control room to be in use during the first weeks of January 2000 to assist the Company's facilities in any problems that may arise. The Company believes that in an emergency it could revert to the use of manual procedures that do not rely on computers or embedded technologies and could perform the minimum functions required to maintain satisfactory control of the business. However, there can be no assurances that satisfactory control can be maintained and any failure to do so could have a material adverse impact on the business. Should the Company have to utilize manual procedures for any extended length of time, it is uncertain that it could maintain the same level of operations, and this could have a material adverse impact on the business. The Company intends to maintain constant supervision on this situation and will develop such additional contingency plans as are required by the changing environment.

## NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivatives used for hedging purposes. SFAS No. 133 requires that entities recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure these instruments at fair value. SFAS No. 133, as amended by SFAS No. 137, is effective for the Company in its first fiscal quarter in 2001. Management is currently assessing the impact the adoption of SFAS No. 133 will have on the Company's consolidated financial statements.

## PART II.

## ITEM 1. LEGAL PROCEEDINGS.

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

In December 1998, the Company announced an agreement to settle the consolidated action against all defendants and the establishment of a settlement fund of \$220 million for the class of open market purchasers of WM Holdings securities between November 3, 1994, and February 24, 1998. On September 17, 1999, the United States District Court for the Northern District of Illinois gave final approval to the settlement after hearing. After the Court had approved the settlement and ordered the case dismissed, a solitary, putative class member sought to intervene in the action and to object, not to the settlement, but to the size of the fee award to plaintiffs' class counsel. The Court denied the motion and the putative class member has filed a notice of appeal from this denial.

Additionally, there are several other actions and claims that arise out of the same set of facts as those giving rise to the purported securities class actions concerning statements made in 1996 and 1997 about WM Holdings financial condition and results of operations. Such actions and claims have been brought by business owners who received WM Holdings common stock in the sales of their businesses to WM Holdings. These actions and claims allege, among other things, breach of warranty or breach of contract based on WM Holdings' restatement of earnings in February 1998. In April 1999, courts having jurisdiction over two such actions, granted summary judgement against WM Holdings and in favor of the individual plaintiffs who brought the respective claims on the issue of breach of contract. Additionally, in October 1999, the court in one of these actions certified as a class consisting of all sellers of business assets to WM Holdings between January 1, 1990 and February 24, 1998 whose purchase agreements with WM Holdings contained express warranties regarding the accuracy of WM Holdings' financial statements. The extent of damages, if any, in these actions has not yet been determined.

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three-month period ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced that its reported operating income for the three months ended March 31, 1999 may have included certain unusual pretax income items. Between July 8, 1999 and September 3, 1999, numerous lawsuits that purport to be based on one or more of these announcements have been filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. These actions have been consolidated into a single action. On September 7, 1999, a lawsuit was filed against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Texas. The parties have filed a joint motion to transfer this case to the United States District Court for the Southern District of Texas, to be consolidated with the consolidated action pending there. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10,

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

In addition, three of the Company's shareholders have filed lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. Two of these lawsuits were filed in the Court of Chancery of the State of Delaware on July 16, 1999 and August 18, 1999, respectively, and one was filed in the United States Districts Court for the Southern District of Texas on July 27, 1999. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged stock sales during the three month period ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper.

The Company has also received a letter from participants in the Company's Employee Stock Purchase Plan (the "ESPP") who purchased the Company's common stock on June 30, 1999. The letter demands that the Administrative Committee of the ESPP bring an action against the Company and certain selling officers and directors for losses allegedly sustained by the participants in their stock purchases. These ESPP participants have indicated in the letter that, absent action by the ESPP, they intend to sue the Company and the directors and officers on behalf of the ESPP and its participants. The administrative committee of the ESPP has advised these participants that it cannot file suit, as requested, because the committee is neither a representative of the plan nor a Waste Management shareholder. The Company has not received any further communication from these participants. However, management does not believe that this claim, if pursued, would have a material adverse effect on the Company's consolidated financial statements.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purported to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the WM Holdings defined benefit pension plan. On behalf of the purported class, the plaintiff sought compensatory and punitive damages, costs, restitution with interest, and such other relief as the Court deemed proper. On July 29, 1999, the Company announced that it had determined to proceed with the termination of the plan, liquidating the plan's assets and settling its obligations to participants. The plaintiff voluntarily dismissed her case on September 13, 1999. However, that same day, the same attorneys filed another Plan-related putative class action against the Company and various individual defendants in the United States District Court for the Middle District of Alabama, Northern Division. This case, brought by a different putative class representative, alleges that the defendants violated the federal Employee Retirement Income Security Act ("ERISA") by failing to terminate the Plan in accordance with its terms, by failing to manage Plan assets prudently and in the interests of Plan participants, and by delaying the plan's termination date and the expected distribution of lump-sum pension benefits. On behalf of the purported class, the plaintiff seeks declaratory and injunctive relief, restitution of all losses and expenses allegedly incurred by the Plan, payment of all benefits allegedly owed to Plan participants, attorneys's fees and costs, and other "appropriate" relief under the Internal Revenue Code, ERISA and the Plan. Defendants' time to move, answer or otherwise respond to the complaint has been extended, and no proceedings have yet occurred.

In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the foreign, federal, state, and local level, including, in certain instances, proceedings instituted by citizens or local governmental authorities seeking to overturn governmental action where governmental officials or agencies are named as defendants together with the Company or one or more of its subsidiaries, or both. In the majority of the situations where proceedings

are commenced by governmental authorities, the matters involved related to alleged technical violations of licenses or permits pursuant to which the Company operates or is seeking to operate or laws or regulations to which its operations are subject or are the result of different interpretations of applicable requirements. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of September 30, 1999, there were four proceedings involving Company subsidiaries where the sanctions involved could potentially exceed \$100,000. The Company believes that any such fines or penalties will not have a material adverse effect on its results of operations or financial condition. However, the outcome of any particular proceeding cannot be predicted with certainty, and the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time.

In August 1999, sludge materials from trucks entering the Company's Woodland Meadows Landfill in Michigan were seized by the FBI pursuant to an investigation of the generator of the sludge materials, a company that provides waste treatment services. Subsequently, the Company received two Grand Jury subpoenas, as well as a request for information from the Michigan Department of Environmental Quality, seeking information related to the landfill's waste acceptance practices and the Company's business relationship with the generator. According to affidavits attached to the subpoena, the generator is alleged to have failed to properly treat sludges prior to disposal. The generator's treatment plant was sold by the Company to the generator in May 1998. The Company is cooperating with the pending investigation and believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

In November 1998, the Company was sued by the estate of Shayne Conner, who died on November 24, 1995 in Greenland, New Hampshire. Plaintiffs allege that Mr. Conner's death was caused by biosolids that were applied to a nearby field by Wheelabrator's BioGro business unit. The litigation is currently in the discovery phase, and the Company is waiting for plaintiff's production of a court-ordered expert on causation. The Company is vigorously defending itself and believes that it will prevail in the litigation.

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

The Company and certain of its subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of their business, some of which are addressed elsewhere in this report or in the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 1999 and June 30, 1999, and Annual Report on Form 10-K for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. While the outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty, the Company believes that these matters will not have a material adverse effect on its consolidated financial statements.

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

None.

#### ITEM 5. OTHER INFORMATION

None.

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

(a) Exhibits:

EXHIBIT NO.*	DESCRIPTION
-----	-----
12	-- Computation of Ratio of Earnings to Fixed Charges.
27	-- Financial Data Schedule.

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

(b) Reports on Form 8-K:

During the third quarter of 1999, the Company filed a Current Report on Form 8-K dated September 17, 1999, reporting additional information in its notes to consolidated financial statements for the 1998 10-K. This information consisted of condensed consolidating financial statements and was provided as a result of full and unconditional guarantees of certain senior indebtedness of the Waste Management, Inc. by WM Holdings and the assumption or guarantee of certain indebtedness of WM Holdings by the Waste Management, Inc.

## 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.

By: /s/ DONALD R. CHAPPEL

-----  
Donald R. Chappel  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ BRUCE E. SNYDER

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

Date: November 15, 1999

## INDEX TO EXHIBITS

EXHIBIT NO.* -----	DESCRIPTION -----
12	-- Computation of Ratio of Earnings to Fixed Charges.
27	-- Financial Data Schedule.

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## WASTE MANAGEMENT, INC.

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

	Nine Months Ended September 30,	
	1999	1998
Income before income taxes, extraordinary item undistributed earnings from affiliated companies and minority interests	\$ (125,327)	\$ (886,170)
Fixed charges deducted from income:		
Interest expense	549,702	503,347
Implicit interest in rents	46,884	40,295
	596,586	543,642
Earnings available for fixed charges	471,259	\$ (342,528)
Interest expense	\$ 549,702	\$ 503,347
Capitalized interest	29,708	29,458
Implicit interest in rents	46,884	40,295
Total fixed charges	\$ 626,294	\$ 573,100
Ratio of earnings to fixed charges	N/A(1)	N/A(2)

(1) The ratio of earnings to fixed charges for 1999 was less than a one-to-one ratio. Additional earnings available for fixed charges of \$155,035,000 were needed to have a one-to-one ratio. The earnings available for fixed charges were negatively impacted by merger cost of \$111,263,000 and unusual items of \$700,034,000 related primarily to the merger between Waste Management, Inc. and Waste Management Holdings, Inc. in July 1998.

(2) The ratio of earnings to fixed charges for 1998 was less than a one-to-one ratio. Additional earnings available for fixed charges of \$915,628,000 were needed to have a one-to-one ratio. The earnings available for fixed charges were negatively impacted by merger cost of \$1,579,127,000 and unusual items of \$666,952,000 related primarily to the merger between Waste Management, Inc. and Waste Management Holdings, Inc. in July 1998.

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

9-MOS	DEC-31-1998	
	JAN-01-1999	
	SEP-30-1999	
		221,862
		37,062
		2,190,153
		255,555
		0
	4,797,278	
		16,619,200
	6,229,323	
	21,425,014	
5,883,302		8,713,546
	0	
		0
		6,275
		4,546,773
21,425,014		9,790,462
	9,790,462	
		6,110,317
	9,434,178	
	50,385	
	0	
	549,702	
	(143,033)	
		139,790
(282,823)		
	0	
	0	
		0
	(282,823)	
	(0.46)	
	(0.46)	