

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-12154

WASTE MANAGEMENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

73-1309529

(I.R.S. Employer
Identification No.)

1001 FANNIN

SUITE 4000

HOUSTON, TEXAS 77002

(Address of principal executive offices)

(713) 512-6200

(Registrant's telephone number, including area code)

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

The number of shares of Common Stock, \$.01 par value, of the registrant outstanding at July 31, 2002 was 611,658,364 (excluding treasury shares of 18,658,919).

PART I

ITEM 1. FINANCIAL STATEMENTS.

WASTE MANAGEMENT, INC.

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

JUNE 30,	DECEMBER 31,	2002	2001	-----	-----
(UNAUDITED) ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 720	\$ 730			
Accounts receivable, net of allowance for doubtful accounts of \$64 and \$73, respectively.....	1,482	1,355			
Notes and other receivables.....	263	314	Parts and		
supplies.....	77	83			
Deferred income taxes.....	419	426	Prepaid expenses and		
other.....	159	216		-----	-----
-- Total current assets.....	3,120	3,124	Property and equipment,		
net.....	10,485	10,357			
Goodwill.....	5,035	4,998	Other intangible assets,		
net.....	111	123	Other		
assets.....	1,077	888		-----	-----
			Total		
assets.....	\$19,828				
\$19,490	=====	=====	LIABILITIES AND STOCKHOLDERS'		
EQUITY					
Current liabilities:					
Accounts payable.....	\$ 556	\$			
liabilities.....	672	Accrued			
revenues.....	2,164				
Current portion of long-term debt.....	2,160	Deferred			
liabilities.....	398	374			
383	515	-----	-----	Total current	
liabilities.....	3,501	3,721	Long-		
term debt, less current portion.....	8,236	7,709	Deferred income		
taxes.....	1,263	1,127			
liabilities.....	873	825	Environmental		
liabilities.....	650		Other		
703	-----	-----	Total		
liabilities.....	14,523				
14,085	-----	-----	Minority interest in		
subsidiaries.....	15	13		-----	-----
-- Commitments and contingencies			Stockholders' equity:		
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 630,329,583 and 630,331,591 shares issued, respectively.....	6	6			
Additional paid-in capital.....	4,521	4,523	Retained		
earnings.....	1,412				
1,057	Accumulated other comprehensive				
loss.....	(140)	(148)	Restricted stock		
unearned compensation.....	(1)	(2)	Treasury		
stock at cost, 18,972,457 and 2,313,883 shares, respectively.....	(508)	(44)		-----	-----
			Total stockholders'		
equity.....	5,290	5,392		-----	-----
-----			Total liabilities and stockholders'		
equity.....	\$19,828	\$19,490	=====	=====	

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

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

	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
Operating				
revenues	\$2,915	\$5,434	\$5,634	\$2,825
Costs and expenses: Operating (exclusive of depreciation and amortization shown below)	\$1,732	\$3,254	\$3,378	\$1,689
Selling, general and administrative	359	398	746	787
Depreciation and amortization	313	341	607	676
Restructuring	37			
Asset impairments and unusual items	3	(6)	8	
Income from operations	796	785	464	441
Other income (expense): Interest	(147)	(232)	(301)	(116)
Interest income	27		5	10
Minority interest	(3)	(3)	(2)	(2)
Other income, net	1	2	3	8
Income before income taxes	(112)	(137)	(223)	(269)
Provision for income taxes	352	304	573	516
Income before extraordinary item and cumulative effect of changes in accounting principle	217	191	354	314
Extraordinary loss on early retirement of debt, net of income tax benefit of \$1 in 2002 and 2001	(1)	(1)		
Cumulative effect of changes in accounting principle, net of income tax expense of \$0 in 2002 and \$2 in 2001	2	2		
Net income	\$ 217	\$ 191	\$ 355	\$ 315
Basic earnings per common share: Income before extraordinary item and cumulative effect of changes in accounting principle	\$ 0.35	\$ 0.31	\$ 0.57	\$ 0.50
Extraordinary item	0.31	0.57	0.50	
Cumulative effect of changes in accounting principle				
Net income	\$ 0.35	\$ 0.31	\$ 0.57	\$ 0.50
Diluted earnings per common share: Income before extraordinary item and cumulative effect of changes in accounting principle	\$ 0.35	\$ 0.30	\$ 0.57	\$ 0.50
Extraordinary item				
Cumulative effect of changes in accounting principle				
Net income	\$ 0.35	\$ 0.30	\$ 0.57	\$ 0.50

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

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

SIX MONTHS ENDED JUNE 30, -----	2002	2001	-----
----- Cash flows from operating activities: Net			
income.....	\$		
355 \$ 315 Adjustments to reconcile net income to net cash			
provided by operating activities: Provision for bad			
debts.....	17	5	
Depreciation and			
amortization.....	607	676	
Deferred			
income tax provision.....	110	101	
Minority interest in subsidiaries.....	3	3	
Net gain on disposal of assets.....	(3)		
(12) Effect of asset impairments and unusual			
items.....	(6)	8	
Change in assets and liabilities, net			
of effects of acquisitions and divestitures:			
Receivables.....	(39)		
(36) Prepaid expenses and other current assets.....			
(7) 3 Other assets.....			
(31) (11) Accounts payable and accrued			
liabilities.....	(152)	(179)	
Deferred revenues and			
other liabilities.....	30	(7)	
----- Net			
cash provided by operating activities.....	884	866	
----- Cash flows from investing			
activities: Acquisitions of businesses, net of cash			
acquired.....	(64)	(65)	
Capital			
expenditures.....			
(552)			
(474) Proceeds from divestitures of businesses, net of			
cash divested, and other sales of			
assets.....	71	26	
Other.....			
96 64 ----- Net cash used in investing			
activities.....	(449)	(449)	

-- Cash flows from financing activities: New			
borrowings.....			
498 953 Debt			
repayments.....			
(468) (1,086) Common stock			
repurchases.....	(500)	--	
Exercise of common stock options and			
warrants.....	23	38	
Other.....			
-- (19) ----- Net cash used in financing			
activities.....	(447)	(114)	

-- Effect of exchange rate changes on cash and cash			
equivalents.....			
2 (1) ----- Increase (decrease) in cash and cash			
equivalents.....	(10)	302	
Cash and cash			
equivalents at beginning of period.....	730	94	

-- ----- Cash and cash equivalents at end of			
period.....	\$ 720	\$ 396	=====

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

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

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

Balance, December 31,				
2001....	630,332	\$6	\$4,523	
\$1,057	\$(148)	\$(2)	2,314	\$
(44) Net				
income.....	--	--	--	--
--	355	--	--	--
Common stock issued upon				
exercise of stock options				
and warrants, including tax				
benefit of \$6.....	--	--	--	--
- (3)	--	--	(1,336)	32
Common stock				
repurchases....	--	--	--	--
--	18,199	(500)	Earned	
compensation related to				
restricted stock.....	--	--	--	--
--	--	--	1	--
Deferred loss on hedged				
instruments, net of tax				
benefit of \$16.....	--	--	--	--
--	--	--	(24)	--
Unrealized loss on				
marketable securities, net				
of tax benefit of \$3.....	--	--	--	--
--	--	--	(5)	--
Cumulative translation				
adjustment of foreign				
currency statements.....	--	--	--	--
--	--	--	37	--
Other.....	--	--	--	--
(2)	--	1	--	(205) 4

Balance, June 30,				
2002.....	630,330	\$6		
\$4,521	\$1,412	\$(140)	\$(1)	
18,972	\$(508)	=====	==	
=====	=====	=====	=====	=====
=====	=====			

See notes to consolidated financial statements.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

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

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

During the second quarter of 2002, the Company reviewed the accounting and reporting for certain contractual arrangements entered into in the mid-1980s relating to a waste-to-energy plant owned by a subsidiary of Wheelabrator Technologies Inc. ("WTI"). The Company acquired a majority interest in WTI, and thus, the subsidiary plant in 1990. In 1998, the Company became the 100% owner of WTI, and thus, the subsidiary plant. Under the arrangements, WTI's subsidiary owns and operates the plant, but the contracting communities that the plant serves pay all debt and debt service related to the plant. Although the contracting communities have funded all of the debt payments during the seventeen years of operation of the plant, WTI's subsidiary is the borrower under the debt. Therefore, the Company has concluded that the assets and liabilities associated with these arrangements should be reflected on the Company's balance sheet. As a result, the Company recorded an increase in property, plant and equipment in the second quarter of 2002 of approximately \$72 million; an increase in other long-term assets of approximately \$52 million; an increase in debt of approximately \$114 million (which includes the current portion of approximately \$20 million); and an increase in other liabilities of \$5 million. The Company also recognized income of \$5 million in the current period. The current arrangements with the contracting communities expire in 2005 at which time the debt will be paid in full. Upon expiration of those arrangements WTI's subsidiary will retain ownership of the plant.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. LONG-TERM DEBT

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

JUNE 30,	DECEMBER 31,	2002	2001	-----	-----
Senior notes and debentures, interest of 6.375% to 8.75% through					
2032.....					\$6,687
\$6,169 4% Convertible subordinated notes due					
2002.....	--	427	5.75%	Convertible	
subordinated notes due 2005 (2% interest rate and 3.75% issuance discount).....					
		31	31	Tax-	
exempt and project bonds, principal payable in periodic installments, maturing through 2032, fixed and variable interest rates ranging from 1.23% to 10.0% (weighted average interest rate of 4.66%) at June 30,					
2002.....	1,692	1,404	Installment loans, notes payable and other, interest from 5% to 12% (average interest rate of 8.4%), maturing through		
2019.....					
209 193 ----- 8,619 8,224 Less current					
portion.....					383 515 -
----- \$8,236 \$7,709 =====					

On June 27, 2002, the Company replaced its \$750 million syndicated 364 day line of credit with a \$620 million syndicated revolving credit facility (the "Three Year Revolver"). The Company maintained its \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). No balances were outstanding from the Company's revolving credit facilities as of December 31, 2001 or June 30, 2002. The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of June 30, 2002, the Company had letters of credit in the aggregate amount of approximately \$1,570 million (of which approximately \$1,450 million were issued under the revolving credit facilities) that generally have terms allowing automatic renewal after a year. At June 30, 2002, the Company had unused and available credit capacity under these facilities of approximately \$920 million.

In May 2002, the Company privately placed \$500 million of 7 3/4% senior unsecured notes due May 15, 2032. Interest on the notes is due on November 15 and May 15 of each year. The net proceeds of the offering were approximately \$498 million, after deducting underwriters' discounts and expenses. The Company used a portion of these proceeds to pay the \$300 million of 6.625% senior notes that matured on July 15, 2002, and has invested the remaining proceeds in cash equivalent investments pending their expected use for repayment of a portion of senior notes that will mature during 2002.

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

The Company has \$285.7 million of 7.7% senior notes due October 1, 2002 and \$350 million of 6.5% senior notes due December 15, 2002. The Company has classified these borrowings as long-term at June 30, 2002 and December 31, 2001 based upon its ability to use its revolving credit facilities, which are both long-term, to refinance these borrowings. The Company intends to use the remaining funds received from its May 2002 \$500 million senior issuance and other sources of long-term financing to refinance the borrowings. However, if other sources of long-term financing are not available, the Company intends to use its revolving credit facilities.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company manages its debt portfolio by using interest rate derivatives to achieve a desired position of fixed and floating rate debt, which is approximately 65% fixed and 35% floating at June 30, 2002. Interest rate swap agreements that were outstanding as of December 31, 2001 and June 30, 2002 are set forth in the table below (in millions):

NET FAIR AS	
OF NOTIONAL	
AMOUNT	
RECEIVE PAY	
MATURITY	
DATE VALUE	
- - - - -	
- - - - -	
- - - - -	
- - - - -	
- - - - -	
- - - - -	
- (IN U.S.	
DOLLARS)	
December	
31,	
2001.... \$	
20 Floating	
Fixed	
Through	
December	
31, 2012	
\$(2)	
December	
31,	
2001....	
\$1,750	
Fixed	
Floating	
Through May	
1, 2018 \$--	
June 30,	
2002.....	
\$ 20	
Floating	
Fixed	
Through	
December	
31, 2012	
\$(2) June	
30,	
2002.....	
\$2,350	
Fixed	
Floating	
Through May	
1, 2018 \$52	

The significant terms of the interest rate contracts and the underlying debt instrument are identical. Accordingly, the interest rate contracts for which we receive a fixed rate and pay a floating rate are recorded at fair value and changes in fair value of these interest rate contracts are deferred as an adjustment to the carrying value of the underlying debt instruments and recognized in interest expense over the life of the underlying debt instruments.

The carrying value of senior notes and debentures have been increased by approximately \$102 million and \$60 million as of June 30, 2002 and December 31, 2001, respectively, related to the accounting for interest rate swap contracts. As of June 30, 2002 and December 31, 2001, \$50 million and \$60 million, respectively, of this increase related to remaining unamortized accumulated fair value adjustments from interest rate swaps that were terminated in 2001. Approximately \$2 million is included as an increase to the tax-exempt and project bonds classification at both June 30, 2002 and December 31, 2001, respectively, for swaps that were terminated in 2001. Interest rate contracts reduced interest expense by \$23 million and \$43 million for the three and six months ended June 30, 2002, respectively, and \$5 million and \$6 million for the three and six months ended June 30, 2001, respectively.

The Company also entered into financing transactions in February 2001 and during the second quarter of 2002 to secure the then current market interest rate in anticipation of senior unsecured note issuances. At June 30, 2002, these cash flow hedges resulted in a deferred loss, net of taxes, of \$22 million, which is included in accumulated other comprehensive income. Approximately \$1 million of this deferred loss is expected to be reclassified into interest expense over the next 12 months.

During June 2002, the Company entered into forward contracts and cross-currency swaps with notional amounts of \$165 million Canadian dollars to mitigate the risk of foreign currency exchange rate fluctuations associated with the conversion of Canadian dollars into US dollars. The current fair value of these cash flow hedges at June 30, 2002 are not material to the Company's financial statements. The Company had no foreign currency derivatives outstanding at December 31, 2001.

2. INCOME TAXES

The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2002 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. For the three and six months ended June 30, 2001, the difference is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles and non-deductible costs associated with the impairment and divestiture of certain businesses. Additionally, in the second quarter of 2001, scheduled Canadian federal and provincial tax rate reductions resulted in a tax benefit of \$42 million, which was offset in part by a tax expense of \$30 million related to the Company's plan to repatriate certain Canadian capital and earnings previously deemed permanently invested in Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. 2002 RESTRUCTURING

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

As of June 30, 2002, all of the Company's operations other than WTI and Canadian Waste Services ("CWS") were restructured to reduce the number of field layers of management from four to three and the number of field layers that have administrative and functional staff from four to two. Under the new structure, the Company's approximately 1,200 operating sites, including waste collection depots, transfer stations, landfills and recycling facilities, were restructured into approximately 85 newly established Market Areas. These Market Areas are responsible for the sales and marketing of the Company's services and for directing the delivery of service by the districts. The Market Area is also the profit center, and the districts, all of which used to be profit centers, became cost centers. Each large Market Area is headed by a Vice President and the others are headed by a General Manager. The Market Areas consolidate financial reporting and provide a range of assistance in the areas of finance and accounting, procurement, people, market planning and development, fleet services, recycling, legal services, engineering, regulatory compliance, safety and public affairs to support the districts. These Market Areas all report to one of four Groups that divide the United States geographically, and which were formerly known as the Company's "Areas." CWS, which was restructured in July 2002, and WTI were the fifth and sixth Groups under the previous structure and continue as the fifth and sixth Groups under the new structure.

In March 2002, the Company recorded a \$37 million pre-tax charge for costs associated with the implementation of the new structure, including \$34 million for employee severance and benefit costs and \$3 million related to abandoned operating lease agreements. Under the new structure, approximately 1,800 field-level administrative and operational positions have been eliminated. The Company's obligation for severance payments will continue during the second half of 2002 and, in some cases, into 2003. As of June 30, 2002, payments of \$22 million for employee severance and benefits and for abandoned leases had been recorded against the liability that was established in March 2002.

The Company expects to incur an additional \$5 million of restructuring expenses in the second half of 2002 primarily related to the relocation of employees and the consolidation of facilities to support the new organizational structure, which includes organizational changes in the third quarter of 2002 to the Company's CWS operations.

4. EARNINGS PER SHARE

The following reconciles the number of common shares outstanding at June 30 of each year to the weighted average number of common shares outstanding and the weighted average number of common and

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

dilutive potential common shares outstanding for the purposes of calculating basic and diluted earnings per common share (shares in millions):

	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2001
	611.4	626.0	611.4	626.0
Number of common shares outstanding at end of period...				
Effect of using weighted average common shares outstanding.....	3.9	(0.6)	9.2	(1.4)
Basic common shares outstanding.....	615.3	625.4	620.6	624.6
Dilutive effect of common stock options and warrants.....	3.9	4.2	4.1	4.1
Dilutive effect of convertible subordinated notes....	--	12.3	1.7	--
Diluted common shares outstanding.....	626.4	628.7	628.7	628.7

For the six months ended June 30, 2002, interest expense (net of taxes) of \$1 million has been added to net income for the diluted earnings per share calculation. For the three months ended June 30, 2001, interest expense (net of taxes) of \$3 million has been added to net income for the diluted earnings per share calculation. For the six months ended June 30, 2001 and for the three months ended June 30, 2002, the effect of the Company's convertible subordinated notes are excluded from the diluted earnings per share calculation because the inclusion of such items would be antidilutive.

At June 30, 2002, there were approximately 48.2 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.

5. DERIVATIVE INSTRUMENT POTENTIALLY SETTLED IN COMMON STOCK

In March 2002, the Company entered into an accelerated stock repurchase master agreement to facilitate the repurchase of shares of its common stock under its stock buy back program announced in February 2002. The transactions under the agreement may, as described below, be settled in shares of the Company's common stock.

Pursuant to the agreement, the Company may from time to time enter into transactions to purchase shares from the counterparty for a notional amount equal to the fair market value of the shares on the date that it elects to purchase. Six months from the date of purchase, the parties enter into a settlement pursuant to which, if the weighted average daily market prices for the stock during such six month period (other than certain days during which the Company is entitled to purchase in the market) times the number of shares initially purchased is greater than the notional amount, the Company will pay the counterparty the difference. If the weighted average daily market price for the valuation period times the number of shares initially purchased is less than the notional amount, the counterparty will pay the Company the difference. Subject to certain conditions, the Company has the option of paying its settlement amount, if any, in shares of its common stock or with cash. Were the Company to settle in shares of common stock, it would issue those shares out of treasury.

In the first quarter of 2002, the Company entered into a transaction to purchase stock under the agreement, purchasing approximately 10.9 million shares at \$27.46 per share for a total of approximately \$300 million. The Company accounted for the initial payment as a purchase of treasury stock and has classified the future settlement with the counterparty as an equity instrument. Under the agreement, the number of shares to be issued by the Company, if the Company were required to pay the counterparty and elected to net settle in shares, is capped at ten million shares. The settlement will not occur until September 2002, and therefore, the Company is unable at this time to predict the number of shares, if any, it would have to issue were it to elect that payment option.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Based on the Company's weighted average stock price through June 30, 2002, the Company would receive in cash approximately \$6 million from the counterparty to settle the contracts. However, for every one dollar of change in the weighted average price of the Company's common stock during the valuation period, the settlement amount would change by \$10.9 million.

6. COMPREHENSIVE INCOME

Comprehensive income is as follows (in millions):

	THREE MONTHS 30,	SIX MONTHS ENDED	ENDED	ENDED	JUNE 30,	JUNE 2001	2002	2001	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	Net								
income.....	\$217	\$191	\$355	\$315	----	----	----	----	Other
comprehensive income: Changes in minimum pension liability adjustment, net of taxes.....	-- -- -- 3 Unrealized gain (loss) on derivative instruments..... (24) (3) (24) 7 Unrealized gain (loss) on marketable securities, net of taxes..... (2) 4 (5) 8 Foreign currency translation adjustment..... 36 43 37 (3) ---- ---- --								
income.....	-- ---- Other comprehensive income..... 10 44 8 15 ---								
income.....	- ---- ---- ---- Total comprehensive income..... \$227 \$235 \$363								
	\$330 =====								

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

	JUNE 30,	DECEMBER 31,	2002	2001	-----	-----
Minimum pension liability adjustment, net of taxes.....	\$ (1)	\$ (1)	Accumulated unrealized gain resulting from changes in fair values of derivative instruments, net of taxes.....	(18)	5	Accumulated unrealized gain reclassified into earnings, net of taxes.....
taxes.....	(5)	(4)	Accumulated unrealized gain on marketable securities, net of taxes.....	1 6 Cumulative foreign currency translation adjustment..... (117) (154) ----- \$(140)		
taxes.....	\$(148) =====					

7. ENVIRONMENTAL LIABILITIES

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

The Company routinely reviews and evaluates sites that require remediation, including sites listed on the EPA's National Priorities List ("NPL sites"). The Company considers whether the Company was an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years the Company was connected with the site. The Company also reviews the same information with respect to other named and unnamed potentially responsible parties ("PRPs"). The Company then reviews the estimated cost for the likely remedy, which is based on management's judgment and experience in remediating such sites for the Company as well as for unrelated parties, information available from regulatory agencies as to costs of remediation, and the number, financial resources and relative degree of responsibility of other PRPs who may be liable for remediation of a specific site, as well as the typical allocation of costs among PRPs. These estimates are sometimes a range of possible outcomes. In those cases, the Company uses the amount within the range that constitutes its best estimate. If no amount within the range appears to be a better estimate than any other, the Company uses the amounts that are the low ends of the ranges in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, and its interpretations. Were the Company to use the high ends of such ranges, it is reasonably possible that the Company's potential liability would be approximately \$258 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of June 30, 2002. As used in this context, "reasonably possible" means the Company believes it is more than remote but less than likely.

As of June 30, 2002, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 77 locations listed on the NPL at which the Company's liability has not been rendered remote as a result of a settlement, judgment or other facts. Of the 77 NPL sites at which claims remain unliquidated, 17 are sites that the Company currently owns. All of the NPL sites owned by the Company were initially developed by others as landfill disposal facilities. At each of the 17 owned facilities, the Company is working with the appropriate government agency to characterize or remediate identified site problems. In addition, at these 17 owned facilities, the Company has either agreed with other liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The 60 NPL sites at which claims against the Company remain unliquidated and that are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of governmental decisions as to the appropriate remedy and agreements among liable parties as to the share each will pay for implementing that remedy. At others where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, the Company's future costs are uncertain, and as they become estimable, could have a material adverse effect on the Company's financial statements.

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated until expected time of payment and then discounted to present value. The inflation rate and discount rate, which are based on the rates for United States Treasury bonds, are reviewed on an annual basis. At both June 30, 2002 and December 31, 2001, the inflation rate and discount rate were 2.0% and 5.5%, respectively. The accretion of the interest related to the discounted environmental liabilities for operating landfills is included in the annual calculation of the landfill's final closure and post-closure cost per ton and is charged to operating costs as landfill airspace is consumed.

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

JUNE 30, 2002				
DECEMBER 31, 2001 --				

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

---	Current (in			
	accrued			
liabilities).....				
\$ 56 \$ 55 \$111 \$ 55				
\$ 66 \$121 Long-				
term.....				
600 273 873 570 255				
825 -----				
---	-----	\$656		
\$328 \$984 \$625 \$321				
\$946 =====				
=====				

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

SIX MONTHS ENDED JUNE 30, -----	2002	2001	----	----
	Beginning			
balance.....			\$946	
	\$962			
Expense.....				
	32	34		
Spending.....				
(30) (42) Acquisitions, divestitures and other				
adjustments.....	36	9	----	----
balance.....			\$984	
	\$963	=====		

8. COMMITMENTS AND CONTINGENCIES

Financial instruments -- The Company has provided letters of credit, performance bonds, trust agreements, financial guarantees and insurance policies to support tax-exempt bonds, contracts, performance of landfill final closure and post-closure requirements, and other obligations. The Company also uses captive insurance, or insurance policies issued by a wholly-owned insurance company, the sole business of which is to issue such policies to the Company, in order to secure such obligations. In those instances where the use of captive insurance is not acceptable, the Company generally has available alternative

bonding mechanisms. Because virtually no claims have been made against these financial instruments in the past, management does not expect that these instruments will have a material adverse effect on the Company's consolidated financial statements. The Company has not experienced any unmanageable difficulty in obtaining performance bonds or letters of credit for its current operations. However, the tragic events of September 11, 2001, as well as recently publicized financial difficulties of several large public companies, have had an impact on the financial status of a number of insurance, surety and reinsurance providers, which could cause an increase in the cost

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

and a decrease in the availability of surety and insurance coverages available to the Company in the future. The Company has arranged for new sources of bonding capacity and continues to evaluate a number of options for further capacity increases.

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

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

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

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

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

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

On July 6 and July 29, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On August 3, 1999, the Company provided additional information regarding its expected earnings for that period, including that its reported operating income for the three months ended March 31, 1999 might have included certain unusual pre-tax income items. More than 30 lawsuits based on one or more of these announcements were filed against the Company and certain of its current and former officers and directors. These lawsuits were consolidated into a single action pending in the United States District Court for the Southern District of Texas (the "Southern District of Texas Court"). On

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

May 8, 2000, the court entered an order appointing the Connecticut Retirement Plan and Trust Funds as lead plaintiff and appointing the law firm of Goodkind Labaton Rudoff & Suchrow LLP as lead plaintiff's counsel.

The lead plaintiff filed its Amended Consolidated Class Action Complaint (the "Complaint") on July 14, 2000. The Complaint pleads claims on behalf of a putative class consisting of all purchasers and acquirers of Company securities (including common stock, debentures and call options), and all sellers of put options, from June 11, 1998 through November 9, 1999. The Complaint also pleads additional claims on behalf of two putative subclasses: (i) the "Merger Subclass," consisting of all WM Holdings stockholders who received Company common stock pursuant to the WM Holdings Merger, and (ii) the "Eastern Merger Subclass," consisting of all Eastern Environmental Services, Inc. ("Eastern") stockholders who received Company common stock pursuant to the Company's acquisition of Eastern on December 31, 1998.

Among other things, the plaintiff alleges that the Company and certain of its current and former officers and directors (i) made misrepresentations in the registration statement and prospectus filed with the SEC in connection with the WM Holdings Merger, (ii) made knowingly false earnings projections for the three months ended June 30, 1999, (iii) failed to adequately disclose facts relating to its earnings projections that the plaintiff claims would have been material to purchasers of the Company's common stock and (iv) made separate and distinct misrepresentations about the Company's operations and finances on and after July 29, 1999, culminating in the Company's pre-tax charge of \$1.76 billion in the third quarter of 1999. The plaintiff also alleges that certain of the Company's current and former officers and directors sold common stock between May 10, 1999 and June 9, 1999 at prices known to have been inflated by material misstatements and omissions. The plaintiff in this action seeks damages with interest, costs and such other relief as the court deems proper. Defendants filed a motion to dismiss on October 3, 2000. On August 16, 2001, the court granted the motion in part and denied it in part, allowing the plaintiff to replead its claims.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

settlement amount will not be paid and the receivable that the Company has recorded will not be collected. Any prolonged delays in the payment ultimately becoming due could make such payment more uncertain, depending on Andersen's financial status at such time. If such uncertainties develop in the future, it is reasonably possible that the Company will be required to write down the receivable up to the full amount due from Andersen.

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

Three sellers of individual businesses to the Company or to a company later acquired by the Company have also brought lawsuits, alleging that for reasons similar to those in the consolidated Texas class actions described above, the stock that they received in the sales of their businesses was overvalued. The first such lawsuit was brought in Virginia state court in July 2000. The Company's demurrer in that case was denied in January 2002. The plaintiff in the Virginia case has excluded himself from the Texas class action settlement. The second seller's lawsuit was brought in Michigan state court in May 2001. After the Company removed this case to federal court, the plaintiffs filed another new lawsuit in Michigan state court alleging only state law claims and also filed a duplicative complaint in the Southern District of Texas Court. The Company reached a settlement with the plaintiffs in the Michigan state and federal lawsuits in April 2002. The third seller's lawsuit was brought in California state court in July 2001, with an amended complaint filed in December 2001. The parties to this lawsuit entered into a settlement agreement in April 2002.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

individually or in the aggregate, have a material adverse effect on the Company's financial condition or results of operations.

On April 23, 2002, the EPA and the United States Department of Justice filed a consent decree in federal court finalizing a settlement agreement reached between Waste Management of Massachusetts, Inc. ("WMMA") and the EPA arising out of violations relating to management of chlorofluorocarbons ("CFCs") that were alleged to have occurred in periods prior to July 1998. Under the consent decree, which was entered in July 2002, WMMA will pay a \$0.8 million civil penalty and spend \$2.6 million on environmental projects that involve the installation of pollution control devices on 150 Boston school buses and the payment for the supply of cleaner burning low sulfur fuel for the buses, as well as the creation of a recreational open space area on a 4.5 acre waterfront property owned by the City of Boston.

It is not possible at this time to predict the impact that the above lawsuits, proceedings, investigations and inquiries may have on the Company, nor is it possible to predict whether any other suits or claims may arise out of these matters in the future. The Company and each of its subsidiaries intend to defend themselves vigorously in all the above matters. However, it is reasonably possible that the outcome of any present or future litigation, proceedings, investigations 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 certain of its subsidiaries are also currently involved in other routine civil litigation and governmental proceedings relating to the conduct of their business. The outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty and these matters could, individually or in the aggregate, have a material adverse impact on the Company's financial statements.

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

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

9. SEGMENT AND RELATED INFORMATION

The Company's one reportable segment consists of its NASW operations. The NASW operations provide integrated waste management services consisting of collection, transfer, disposal (solid waste landfill, hazardous waste landfill and waste-to-energy facilities), recycling, independent power production plants ("IPPs"), and other miscellaneous services to commercial, industrial, municipal and residential customers throughout the United States, Puerto Rico and Canada. The Company has broken out its one reportable segment in the table shown below into "NASW (excluding WTI)" and "WTI," to provide more detailed information. NASW (excluding WTI) includes the Company's Eastern, Midwest, Western, Southern and CWS Groups plus its national recycling operations. WTI is the Company's sixth Group and consists of the Company's waste-to-energy and independent power production facilities. The Company's previously reported segment that consisted of waste management services in international markets outside of North America and non-solid waste services, all of which were divested by March 31, 2002, is shown in the table below as "Other."

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

Three Months Ended: June					
30, 2002 Net operating					
revenues(b),(c).....					
\$2,646 \$179 \$2,825 \$ -- \$					
-- \$2,825 EBIT(d),					
(e).....					
490 62 552 -- (88) 464					
June 30, 2001 Net					
operating revenues(b),					
(c)..... \$2,667 \$200					
\$2,867 \$ 48 \$ -- \$2,915					
EBIT(d),					
(e).....					
527 63 590 (1) (148) 441					
Six Months Ended: June 30,					
2002 Net operating					
revenues(b),(c).....					
\$5,080 \$346 \$5,426 \$ 8 \$ -					
- \$5,434 EBIT(d),					
(e).....					
879 97 976 (2) (178) 796					
June 30, 2001 Net					
operating revenues(b),					
(c)..... \$5,172 \$380					
\$5,552 \$ 82 \$ -- \$5,634					
EBIT(d),					
(e).....					
991 92 1,083 (17) (281)					
785					

-
- (a) Corporate functions include the corporate treasury, legal, information technology, corporate tax, corporate insurance, management of closed landfills and related insurance recoveries, centralized service center and other typical administrative functions.
 - (b) Other operations are net of intersegment revenue with NASW of \$0 and \$1 million for the three and six months ended June 30, 2002, respectively, and \$13 million and \$19 million for the corresponding periods of 2001. There are no other significant sales between reportable segments. However, WTI operations are net of intrasegment revenue with NASW (excluding WTI) of \$14 million and \$29 million for the three and six months ended June 30, 2002, respectively, and \$12 million and \$27 million for the corresponding periods of 2001. Additionally, NASW (excluding WTI) operations are net of intrasegment revenue with WTI of \$5 million and \$10 million for the three and six months ended June 30, 2002, respectively, and \$6 million and \$12 million for the corresponding periods of 2001.
 - (c) The Company's operating revenues tend to be somewhat lower in the winter months, primarily due to the lower volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where the Company operates also tends to decrease during the winter months. The Company's first and fourth quarter results of operations typically reflect this seasonality. In addition, particularly harsh weather conditions may result in the temporary suspension of certain of our operations.
 - (d) EBIT is defined as "Earnings Before Interest and Taxes" and equals income from operations on the consolidated statements of operations. EBIT is an earnings measurement used by management to evaluate operating performance.
 - (e) For those items included in the determination of EBIT, the accounting policies of the segments are generally the same as those described in the

summary of significant accounting policies in the Company's Form 10-K for the year ended December 31, 2001, except as it relates to goodwill. EBIT in 2001 included goodwill amortization of \$39 million and \$78 million for the three and six months ended June 30, 2001, respectively, of which \$29 million and \$58 million for the three and six months ended June 30, 2001 was in the NASW (excluding WTI) operations, \$8 million and \$16 million for the three and six months ended June 30, 2001 was in the WTI operations, and \$2 million and \$4 million for the three and six months ended June 30, 2001 was in the corporate function. As discussed in Note 12, the Company ceased the amortization of its goodwill in conjunction with the adoption of SFAS No. 142 on January 1, 2002. In 2002, the Company's corporate functions began charging its NASW operations an expense similar to what those NASW operations' goodwill amortization would have been had the Company not been required to adopt SFAS No. 142. For the three and six months ended June 30, 2002, this charge increased EBIT for the corporate functions by \$37 million and \$73 million, respectively, and decreased EBIT for the WTI operations by \$8 million and \$15 million, respectively, and the NASW (excluding WTI) operations by \$29 million and \$58 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. WASTE PAPER DERIVATIVES AND HEDGING ACTIVITIES

The Company enters into waste paper swap agreements and other derivative instruments to secure margins on certain paper products to be sold from its material recovery facilities. The Company expects to achieve the margins by entering into transactions to mitigate the variability in cash flows from sales of waste paper products at floating prices, resulting in a fixed price being received from sales of such products. The Company accounts for these derivatives as cash flow hedges. As of June 30, 2002, the net fair value of these derivatives was a \$5 million liability.

In addition, the Company has entered into waste paper swap agreements for trading purposes with certain counterparties that have issued letters of credit to the Company to support their credit worthiness. For both the three and six months ended June 30, 2002, the Company increased revenues by approximately \$3 million for waste paper swap agreements not designated as hedges.

For the three and six months ending June 30, 2001 the Company recorded a gain of \$1 million and \$7 million, respectively, related to derivative agreements with Enron North America Corp. ("Enron") as an offset to operating expenses. In the fourth quarter of 2001, the Company reclassified its year-to-date net waste paper swap mark-to-market adjustments to be an adjustment to revenue instead of operating expenses. On December 2, 2001, Enron declared bankruptcy under Chapter 11 of the Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"). Due to the uncertainty of Enron's ability to satisfy all of its financial commitments, the Company determined that all of its waste paper derivatives with Enron had zero fair value at December 31, 2001. In February 2002, the Company terminated its derivative instruments with Enron. The Company carries a deferred gain as of June 30, 2002, which is included in accumulated other comprehensive income, of approximately \$5 million related to its waste paper derivatives with Enron that had qualified through November 2001 as cash flow hedges. This deferred gain is being amortized into earnings as the forecasted transactions that were previously hedged actually occur. The deferred gain related to waste paper derivatives that previously qualified as hedges that are expected to be reclassified into earnings over the next twelve months is approximately \$3 million.

11. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEETS
 JUNE 30, 2002
 (UNAUDITED)

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

---	ASSETS	Current assets: Cash and cash equivalents.....	\$ 792	\$ -- \$
		(72) \$ -- \$ 720 Other current assets.....	-- 4	2,396 -
-		2,400 -----		
----		792 4 2,324 -- 3,120 Property and equipment, net.....	-- --	
		10,485 -- 10,485 Intercompany and investment in subsidiaries.....		
		8,928 4,997 (7,909) (6,016) -- Other assets.....	66	
165		5,992 -- 6,223 -----		
		----- Total		
assets.....			\$9,786	
\$5,166	\$10,892	\$(6,016)	\$19,828	=====
=====	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY				
		Current liabilities: Current portion of long-term debt.....	\$ 4	\$ 276 \$ 103 \$
		-- \$ 383 Accounts payable and other accrued liabilities.....		
64	45	3,009 -- 3,118 -----		
--		----- 68 321 3,112 -- 3,501		
		Long-term debt, less current portion.....	4,406	2,342 1,488 --
		8,236 Other liabilities.....	22	
1	2,763	-- 2,786 -----		
		----- Total		
liabilities.....				
4,496	2,664	7,363 -- 14,523	Minority interest in subsidiaries.....	-- --
		15 -- 15	Stockholders' equity.....	5,290
2,502	3,514	(6,016)	5,290	-----
		----- Total		
liabilities and stockholders' equity.....				
\$9,786	\$5,166	\$10,892	\$(6,016)	\$19,828
=====	=====	=====	=====	=====

DECEMBER 31, 2001

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

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

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

--	Operating				
revenues.....	\$ --	\$	--	\$	
-- \$2,825	\$ --	\$2,825	Costs and		
expenses.....	--	--			
2,361	--	2,361	-----	--	
	Income from				
operations.....	--	--			
464	--	464	-----	--	
	Other income (expense):				
Interest income (expense),					
net.....	(58)	(39)	(14)	--	(111)
Equity in subsidiaries, net of					
taxes.....					
254	278	--	(532)	--	Minority
interest.....	--	--			
	(2)	--	(2)	Other,	
net.....	--	1			
--	1	-----	--		
---	196	240	(16)	(532)	(112)
	Income				
before income taxes.....	196				
240	448	(532)	352	Provision for	
	(benefit from) income				
taxes.....					
(21)	(14)	170	--	135	-----
	Net				
income.....					
\$217	\$254	\$ 278	\$(532)	\$ 217	====
====	=====	=====	=====	=====	

THREE MONTHS ENDED JUNE 30, 2001
(UNAUDITED)

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

--	Operating				
revenues.....	\$ --	\$	--	\$	
-- \$2,915	\$ --	\$2,915	Costs and		
expenses.....	--	--			
2,474	--	2,474	-----	--	
	Income from				
operations.....	--	--			
441	--	441	-----	--	
	Other income (expense):				
Interest income (expense),					
net.....	(73)	(49)	(15)	--	(137)
Equity in subsidiaries, net of					
taxes.....					
237	268	--	(505)	--	Minority
interest.....	--	--			
	(2)	--	(2)	Other,	
net.....	--	2			
2	--	2	-----	--	
--	164	219	(15)	(505)	(137)
	Income				
before income taxes.....	164				
219	426	(505)	304	Provision for	
	(benefit from) income				
taxes.....					
(27)	(18)	158	--	113	-----
	Net				
income.....					
\$191	\$237	\$ 268	\$(505)	\$ 191	====
====	=====	=====	=====	=====	

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2002
(UNAUDITED)

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

--	Operating			
revenues.....	\$ --	\$	--	\$
-- \$5,434	\$ --	\$5,434	Costs and	
expenses.....	--	--		
4,638	--	4,638	-----	
	Income from			
operations.....	--	--		
796	--	796	-----	
	Other income (expense):			
Interest income (expense),				
net.....	(114)	(79)	(30)	-- (223)
Equity in subsidiaries, net of				
taxes.....				
427	476	--	(903)	-- Minority
interest.....	--	--		
	(3)	--	(3)	Other,
net.....	--	1		
2	--	3	-----	
---	313	398	(31)	(903)
	(223)	-----		
	Income			
before income taxes.....	313			
398	765	(903)	573	Provision for
				(benefit from) income
taxes.....				
(42)	(29)	290	--	219
	Income before			
extraordinary item and cumulative				
effect of change in accounting				
principle.....	355	427		
475	(903)	354	Extraordinary	
item.....	--	--	(1)	
--	(1)	Cumulative effect of change		
		in accounting		
principle.....	--	--	2	
-	2	-----		
	Net			
income.....				
\$ 355	\$427	\$ 476	\$(903)	\$ 355
=====	=====	=====	=====	=====

SIX MONTHS ENDED JUNE 30, 2001
(UNAUDITED)

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

--	Operating			
revenues.....	\$ --	\$	--	\$
-- \$5,634	\$ --	\$5,634	Costs and	
expenses.....	--	--		
4,849	--	4,849	-----	
	Income from			
operations.....	--	--		
785	--	785	-----	
	Other income (expense):			
Interest income (expense),				
net.....	(148)	(100)	(26)	-- (274)
Equity in subsidiaries, net of				
taxes.....				
408	471	--	(879)	-- Minority
interest.....	--	--		
	(3)	--	(3)	Other,
net.....	--	--		
8	--	8	-----	
----	260	371	(21)	(879)
	(269)	-----		
	Income			
before income taxes.....	260			

	371	764	(879)	516	Provision for (benefit from) income
taxes.....					
(55) (37) 294 -- 202 -----					

Income before extraordinary item and cumulative effect of change in accounting principle.....	315	408			
470 (879) 314 Extraordinary item.....	--	--	(1)		
-- (1) Cumulative effect of change in accounting principle.....	--	--	2		
- 2 -----					
- Net					
income.....					
\$ 315 \$ 408 \$ 471 \$(879) \$ 315					
=====					

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002
(UNAUDITED)

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

Cash flows from operating activities: Net	
income.....	\$
355 \$ 427 \$ 476 \$(903) \$ 355	Equity in earnings of subsidiaries, net of taxes..... (427) (476) -- 903 -
	- Other adjustments and
charges.....	(12) (10) 551 -- 529
----- Net cash provided by (used in) operating activities.... (84) (59) 1,027 -	
- 884	----- Cash flows from investing activities: Acquisitions of businesses, net of cash acquired..... -- -- (64) -- (64) Capital expenditures..... -- --
	(552) -- (552) Proceeds from divestitures of businesses, net of cash divested, and other sales of assets..... -- -- 71 -- 71
Other.....	-----
-- -- 96 -- 96	----- Net cash used in investing activities..... -- -- (449) -- (449) -----
Cash flows from financing activities: New borrowings.....	
498 -- -- -- 498	Debt repayments.....
(427) (24) (17) -- (468)	Common stock repurchases..... (500) -- --
-- (500)	Exercise of common stock options and warrants..... 23 -- -- -- 23 (Increase) decrease in intercompany and investments, net.....
525 83 (608)	-----
Net cash provided by (used in) financing activities.... 119 59 (625) -- (447) -----	
---	----- Effect of exchange rate changes on cash and cash equivalents.....
-- -- 2 -- 2	----- Increase (decrease) in cash and cash equivalents..... 35 -- (45) -- (10) Cash and cash equivalents at beginning of period..... 757 -- (27) -- 730 -----
--	----- Cash and cash equivalents at end of period..... \$ 792 \$ -- \$ (72) \$ -- \$ 720
=====	=====

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2001
(UNAUDITED)

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

Cash flows from operating activities: Net	
income.....	\$
315 \$ 408 \$ 471 \$(879) \$ 315	Equity in earnings of subsidiaries, net of taxes..... (408) (471) -- 879 -
	- Other adjustments and
charges.....	(24) (4) 579 -- 551
----- Net cash provided by (used in) operating activities.... (117) (67) 1,050 -- 866 -----	
Cash flows from investing activities: Acquisitions of businesses, net of cash acquired..... -- -- (65) --	
	(65) Capital expenditures..... -- --
(474) -- (474)	Proceeds from divestitures of businesses, net of cash divested, and other sales of assets..... -- -- 26 -- 26
Other.....	-----

```

-- -- 64 -- 64 ----- Net
cash used in investing activities.....
-- -- (449) -- (449) -----
- Cash flows from financing activities: New
borrowings.....
594 -- 359 -- 953 Debt
repayments.....
(320) (400) (366) -- (1,086) Exercise of common
stock options and warrants..... 38 -- -- -- 38
Other.....
-- -- (19) -- (19) (Increase) decrease in
intercompany and investments,
net.....
64 453 (517) -- -- -----
Net cash provided by (used in) financing
activities.... 376 53 (543) (114) -----
----- Effect of exchange rate on cash and
cash equivalents... -- -- (1) -- (1) -----
----- Increase (decrease) in cash and
cash equivalents..... 259 (14) 57 -- 302 Cash and
cash equivalents at beginning of period..... 174
14 (94) -- 94 ----- Cash
and cash equivalents at end of period..... $
433 $ -- $ (37) $ -- $ 396 =====
=====
=====
=====
=====

```

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

12. NEW ACCOUNTING PRONOUNCEMENTS

SFAS NO. 141 AND SFAS NO. 142

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

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		
	2002	2001	2002	2001	
income.....	\$ 217	\$ 191	\$ 355	\$ 315	Add back:
taxes.....			31	62	-----
					Adjusted net
income.....	\$ 217	\$ 222	\$ 355	\$ 377	=====
	===== BASIC EARNINGS PER COMMON SHARE:				
	Reported net				
income.....	\$0.35	\$0.31	\$0.57	\$0.50	Goodwill
taxes.....			0.05	0.10	amortization, net of
					Adjusted net
income.....	\$0.35	\$0.36	\$0.57	\$0.60	=====
	===== DILUTED EARNINGS PER COMMON SHARE:				
	Reported net				
income.....	\$0.35	\$0.30	\$0.57	\$0.50	Goodwill
taxes.....			0.05	0.10	amortization, net of
					Adjusted net
income.....	\$0.35	\$0.35	\$0.57	\$0.60	=====
	=====				

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

LICENSES, COVENANTS PERMITS NOT- TO- AND CUSTOMER LISTS COMPETE OTHER TOTAL -----					
----- Intangible assets.....	\$127	\$ 95	\$18	\$ 240	Less
					accumulated
amortization.....	(53)	(6)	(129)		(70)
-- \$ 57 \$ 42 \$12 \$ 111	=====	=====	=====	=====	=====
	===	=====			

Intangible assets are recorded at cost and amortized on a straight-line basis. Customer lists are generally amortized over five to seven years.

Covenants not-to-compete are amortized over the term of the agreement, which is generally three to five years. Licenses, permits and other intangible assets are amortized over the terms of the related agreement or the Company's estimate of the useful life if there are no definite terms.

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Landfill operating permits are not presented above and are included in landfill assets and amortized using the Company's landfill amortization method. The intangible asset amortization expense estimated as of December 31, 2001, for the five years following 2001 is as follows (in millions):

2002
2003
2004
2005
2006
- -

- -

- -

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

As of June 30, 2002, the amount of goodwill attributable to WTI was approximately \$783 million. The remaining goodwill balance of approximately \$4,252 million was attributable to NASW (excluding WTI).

SFAS NO. 143

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

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

SFAS NO. 144

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), which supersedes Statement of Financial Accounting Standards No. 121. SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and extends the presentation of discontinued operations to include more divestiture transactions. SFAS No. 144 also requires that an impairment loss be recognized for assets held-for-use when the carrying amount of an asset, or group of assets if the cash flows from those assets cannot be independently and separately identified, is not recoverable.

The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group, excluding interest charges. Estimates of future cash flows used to test the recoverability of a long-lived asset or asset group must incorporate a company's own assumptions about its use of the asset or asset group and must factor in all available evidence. The Company adopted SFAS No. 144 on January 1,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2002. Upon initial application of SFAS No. 144, certain previously held-for-sale assets did not meet SFAS No. 144 criteria to be held-for-sale because their anticipated sale is in 2003. However, under the transition provisions of SFAS No. 144, the Company has until December 31, 2002 to either sell these assets or meet the new held-for-sale criteria to avoid reclassifying the assets to held-for-use.

SFAS NO. 145

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

SFAS NO. 146

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructuring, involuntarily terminating employees, and consolidating facilities, initiated after December 31, 2002.

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

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

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

- possible changes in our estimates of site remediation requirements, final closure and post-closure obligations, compliance and other audits and regulatory developments;
- the possible impact of regulations on our business, including the cost to comply with regulatory requirements and the potential liabilities associated with disposal operations, as well as our ability to obtain and maintain permits needed to operate our facilities;
- the effect of limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste;
- possible charges against earnings for certain shut down operations and uncompleted acquisitions or development or expansion projects;
- possible charges to asset impairments or further impairments to long-lived assets resulting from changes in circumstances or future business events or decisions;
- the effects that trends toward requiring recycling, waste reduction at the source and prohibiting the disposal of certain types of wastes could have on volumes of waste going to landfills and waste-to-energy facilities;
- the effect the weather has on our quarter to quarter results, as well as the effect of extremely harsh weather on our operations;
- the effect that price fluctuations on commodity prices may have on our operating revenues;
- the outcome of litigation;
- whether there will be any appeals to the approval of the \$457 million class action lawsuit settlement;
- the effect competition in our industry could have on our ability to maintain margins, including uncertainty relating to competition with governmental sources that enjoy competitive advantages from tax-exempt financing and tax revenue subsidies;
- our ability to successfully implement our new organization plan, improve the productivity of acquired operations and use our asset base and strategic position to operate more efficiently;
- our ability to accurately assess all of the pre-existing liabilities of companies we have acquired and to successfully integrate the operations of acquired companies with our existing operations;
- possible diversions of management's attention and increases in operating expenses due to efforts by labor unions to organize our employees;

- possible increases in operating expenses due to fuel price increases or fuel supply shortages;
- the effects of general economic conditions, including the ability of insurers to fully or timely meet their contractual commitments and of surety companies to continue to issue surety bonds;
- possible defaults under our credit agreements if cash flows are less than we expect or capital expenditures are more than we expect, and the possibility that we cannot obtain additional capital on acceptable terms if needed; and
- possible errors or problems with our recently deployed and in process enterprise-wide software and technology systems.

GENERAL

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

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Accounting for Landfills -- We account for certain costs at our landfills using the "units-of-consumption" method, which means we expense amounts for certain landfill costs and landfill final closure and post-closure costs for each unit of waste as it is accepted for disposal at the landfills. This accounting method requires us to make estimates and assumptions, as described below. Any changes in our estimates are made prospectively.

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

Final Closure and Post-Closure Costs -- The costs for final closure and post-closure obligations at landfills we own or operate are generally estimated based on our interpretations of current requirements and proposed or anticipated regulatory changes. The estimates for landfill final closure and post-closure costs also consider when the costs would actually be paid and factor in, where appropriate, inflation and

discount rates. The possibility of changing legal and regulatory requirements and the forward looking nature of these types of costs make any estimation or assumption less certain.

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

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

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

These criteria are initially evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. However, our policy provides that, based on the facts and circumstances of a specific landfill, exceptions to these criteria may be permitted. Exceptions to these criteria must be approved through a landfill-specific approval process that includes the approval from the Chief Financial Officer and a review by the Audit Committee of the Board of Directors on a quarterly basis. Of the 101 landfill sites with expansions at June 30, 2002, 27 landfills required the Chief Financial Officer to approve an exception to the criteria. Approximately two-thirds of these exceptions were due to legal or community issues that could impede the expansion process, while the remaining were primarily due to permit application processes beyond the one-year limit, which in most cases were due to state-specific permitting procedures. When we include the expansion airspace in our calculations of available airspace, we also include the projected costs for development and final closure and post-closure of the expansion in the amortization basis of the landfill.

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

After determining the costs at our landfills, including final closure and post-closure costs, and the available and probable expansion airspace, we then determine the per ton rate that will be expensed. We

look at factors such as the waste stream, geography and rate of compaction, among others, to determine the number of tons it will take to fill the available and probable expansion airspace. We then divide our costs by that number of tons, giving us the rate per ton to expense.

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

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

These estimates are sometimes a range of possible outcomes. In those cases, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the amounts that are the low ends of the ranges in accordance with SFAS No. 5, Accounting for Contingencies, and its interpretations. Were we to use the high end of such ranges, it is reasonably possible that our potential liability would be approximately \$258 million higher on a discounted basis in the aggregate than the estimate recorded in the consolidated financial statements as of June 30, 2002. As used in this context, "reasonably possible" means we believe it is more than remote but less than likely.

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

Typical indicators that an asset may be impaired include:

- A significant decrease in the market price of an asset or asset group;
- A significant adverse change in the extent or manner in which an asset or asset group is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of an asset or asset group, including an adverse action or assessment by a regulator;

- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- Current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or
- A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

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

RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001

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

	PERIOD TO PERIOD THE CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 2002	PERIOD TO PERIOD THE CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 2001	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 2002	PERIOD TO PERIOD CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 2001
STATEMENT OF OPERATIONS: Operating				
revenues.....	\$ (90)			
(3.1)% \$(200) (3.5)%				
expenses: Operating (exclusive of depreciation and amortization shown below).....	(43)	(124)	(2.5)	(124)
(3.7) Selling, general and administrative.....	(39)	(41)	(9.8)	(41)
(5.2) Depreciation and amortization.....	(28)	(69)	(8.2)	(69)
	(10.2)			
Restructuring.....				
-- -- 37 N/A Asset impairments and unusual items.....	(3)	(14)	(100.0)	(175.0)
-- ----- (113) (4.6) (211) (4.4) -----				
Income from operations.....	23	5.2		
11 1.4 ----- Other income (expense):				
Interest				
expense.....	31	21.1		
69 22.9 Interest and other income, net.....	(6)	(23)	(50.0)	(65.7)
Minority				
interest.....	--	--	--	--
- - - - - 25 18.2 46 17.1 -----				
Income before income taxes.....	48	15.8	57	11.0
Provision for income taxes.....	22	19.5	17	8.4
--- ----- Income before extraordinary items and cumulative effect of changes in accounting principle.....	\$ 26	13.6%	\$ 40	12.7% =====
	=====			

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

	THREE MONTHS 30, 2001	SIX MONTHS ----- -----	ENDED JUNE 30, ----- -----	ENDED JUNE 2002 2001	2002	2002	2002
	STATEMENT OF						
	OPERATIONS: Operating						
revenues.....							100.0%
100.0% 100.0% 100.0%							Costs
and expenses: Operating (exclusive of depreciation and amortization shown below).....							59.8
59.4 59.9 60.0							Selling, general and
administrative.....							12.7 13.7 13.7 14.0
	Depreciation and						
amortization.....							11.1 11.7 11.2
	12.0						
Restructuring.....							
-- -- 0.7 --	Asset impairments and unusual						
items.....							-- 0.1 (0.1) 0.1 -----
-----							83.6 84.9 85.4 86.1 -----
	--- Income from						
operations.....							16.4
15.1 14.6 13.9							Other income
(expense): Interest							
expense.....							(4.1)
(5.0) (4.3) (5.3)							Interest and other income,
net.....							0.3 0.4 0.2 0.6
Minority							interest..... (0.1)
(0.1) -- --							----- 3.9 4.7 (4.1)
(4.7) -----							Income before income
taxes.....							12.5 10.4 10.5
	9.2 Provision for income						
taxes.....							4.8 3.8 4.0 3.6 -
-----	Income before extraordinary						
items and cumulative effect of changes in accounting principle.....							7.7% 6.6% 6.5% 5.6%
	=====						

OPERATING REVENUES

For the three and six months ended June 30, 2002, our operating revenues decreased \$90 million, or 3.1%, and \$200 million, or 3.5%, respectively, as compared to the corresponding 2001 periods. Of the amounts, \$42 million and \$126 million, respectively, was attributable to lower operating revenues from our NASW operations for the three and six months ended June 30, 2002 as compared to the corresponding prior year periods. The remainder was primarily due to divestitures of non-NASW operations.

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

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

[CHART]

THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
Collection	\$1,916	\$1,925	\$3,739
Landfill	\$694	\$718	\$1,289
Transfer	\$375	\$384	\$691
WTI (waste-to-energy and IPPs)	\$193	\$212	\$375
Recycling and other	\$161	\$154	\$295
Intercompany	\$(514)	\$(526)	\$(963)
Total	\$2,825	\$2,867	\$5,426

The change in NASW revenues of \$42 million and \$126 million for the three and six months ended June 30, 2002, respectively, is reflected in the table below (in millions).

PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 2002	PERIOD TO PERIOD CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 2002	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 2001	PERIOD TO PERIOD CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 2001
price.....	\$ 11	0.4%	
	price.....	Electricity	(9) (0.2)
	price.....	Fuel	(33) (0.6)
	price.....	Other	(0.2) (23) (0.4)
	price.....	Total	13 0.4
			57 1.0

price.....	(1)
	-- (8) (0.2)
Volume.....	
(57) (2.0) (145) (2.6) ---- Internal	
growth.....	(58)
	(2.0) (153) (2.8)
Acquisitions.....	
	20 0.6 38 0.7
Divestiture.....	
(3) (0.1) (5) (0.1) Foreign currency	
translation.....	(1) -- (6)
(0.1) ----	---- \$(42) (1.5)% \$(126) (2.3)%
	====

We experienced negative internal growth for the three and six months ended June 30, 2002, as compared to the same periods of the prior year, of \$57 million or 2.0%, and \$145 million or 2.6%, for the three and six months ended June 30, 2002, respectively, which is substantially volume related. The volume changes are largely related to reduced commercial and industrial collection volumes principally in the eastern and midwestern areas of the United States, and reduced landfill volumes, substantially attributable to the eastern and western areas of the United States. The lagging economy and increased competition, particularly in the higher margin commercial and industrial collection operations, resulted in reduced volumes. Volumes were also negatively affected \$12 million and \$18 million for the three and six months ended June 30, 2002, respectively, by lower construction activities at certain of our waste-to-energy facilities.

Pricing remained flat for the quarter, but declined \$8 million, or 0.2%, for the six months ended June 30, 2002. Revenue from commodity prices increased \$11 million for the three months ended June 30, 2002 and decreased \$9 million for the six months ended June 30, 2002. The increase in the current quarter is attributable to the significant increase in OCC commodity prices beginning in the second quarter of 2002. Reduced electricity rates in 2002 in California compared with last year have negatively impacted revenue change due to price from our IPPs by \$18 million and \$33 million for the three and six months ended June 30, 2002, respectively. Further, reduced diesel fuel costs in the current year resulted in revenues related to our fuel surcharge program declining \$7 million and \$23 million for the three and six months ended June 30, 2002, respectively. However, we substantially offset these price declines with other price increases of \$13 million, or 0.4%, and \$57 million, or 1.0%, for the three and six months ended June 30, 2002, respectively. These price increases are reflected primarily in the commercial and residential collection operations and the transfer station business.

Offsetting this negative internal growth was an increase in revenues of \$20 million and \$38 million for the three and six months ended June 30, 2002, respectively, due to acquisitions of NASW business during 2002 and the full year effect of such acquisitions that were completed in 2001. We also experienced a decrease in revenue of \$4 million and \$11 million for the three and six months ended June 30, 2002, respectively, due to divestitures of NASW operations and the effect of foreign currency fluctuations related to the Canadian dollar.

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

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

Operating costs and expenses decreased \$43 million, or 2.5%, and \$124 million, or 3.7%, for the three and six months ended June 30, 2002, respectively, compared to the prior year periods. As a percentage of operating revenues, operating costs and expenses were 59.8% and 59.9% for the three and six months ended June 30, 2002, respectively, and 59.4% and 60.0% for the corresponding prior year periods. In March 2002 we implemented cost cutting initiatives and restructured our field based operations. These savings, as a percentage of operating revenues, were offset by the effect of reduced revenues caused by the slowing economy in North America. As a result, operating costs and expenses as a percentage of revenue were relatively consistent for the comparative prior periods.

SELLING, GENERAL AND ADMINISTRATIVE

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

Selling, general and administrative expenses decreased \$39 million, or 9.8%, and \$41 million, or 5.2%, for the three and six months ended June 30, 2002, respectively, as compared to the prior year corresponding period. In addition, as a percentage of operating revenues, our selling, general and administrative expenses decreased from 13.7% to 12.7% for the three months ended June 30, 2001 and 2002, respectively, and decreased from 14.0% to 13.7% for the six months ended June 30, 2001 and 2002, respectively. This decrease in costs is primarily attributable to our implementation of cost cutting measures, such as reducing professional fees, the reductions associated with the March 2002 restructuring, and the effect of divestitures of operations in 2002. These savings were offset by an increase in bad debt expense of \$12 million for the six months ended June 30, 2002 compared to the same period of 2001.

DEPRECIATION AND AMORTIZATION

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

Depreciation and amortization expense decreased \$28 million, or 8.2%, and \$69 million, or 10.2% for the three and six months ended June 30, 2002, respectively, compared to the same three and six month periods of 2001. As a percentage of operating revenues, depreciation and amortization expense was 11.1% and 11.2% for the three and six months ended June 30, 2002, respectively, and 11.7% and 12.0% for the corresponding prior periods. The decrease in depreciation and amortization expense is primarily attributable to our adoption of Statement of Financial Accounting Standards No. 142, Accounting for Goodwill and Other Intangible Assets ("SFAS No. 142"), which required that the amortization of all goodwill cease on January 1, 2002. Goodwill amortization for the three and six months ended June 30, 2001 was \$39 million, or 1.3% of operating revenues, and \$78 million, or 1.4% of operating revenues, respectively. Excluding the effect of goodwill amortization expense in 2001, depreciation and amortization expense as a percentage of revenues increased 0.7% and 0.6% from the three and six months ended June 30, 2001, respectively, compared to the corresponding periods of 2002. Higher depreciation expense was recorded in the first half of 2002 primarily due to significant truck purchases in the last half of 2001. This was substantially offset by lower landfill airspace amortization expense recorded in the first half of 2002 attributable to reduced tonnage accepted at our landfills as compared to the first half of 2001.

RESTRUCTURING

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

As of June 30, 2002, all of our operations other than WTI and Canadian Waste Services ("CWS") were restructured to reduce the number of field layers of management from four to three and the number of field layers that have administrative and functional staff from four to two. Under the new structure, our approximately 1,200 operating sites, including waste collection depots, transfer stations, landfills and recycling facilities, were restructured into approximately 85 newly established Market Areas. These Market Areas are responsible for the sales and marketing of our services and for directing the delivery of service by the districts. The Market Area is also the profit center, and the districts, all of which used to be profit centers, became cost centers. Each large Market Area is headed by a Vice President and the others are headed by a General Manager. The Market Areas consolidate financial reporting and provide a range of assistance in the areas of finance and accounting, procurement, people, market planning and development, fleet services, recycling, legal services, engineering, regulatory compliance, safety and public affairs to support the districts. These Market Areas all report to one of four Groups that divide the United States geographically, and which were formerly known as our "Areas." CWS, which was restructured in July 2002, and WTI were the fifth and sixth Groups under the previous structure and continue as the fifth and sixth Groups under the new structure.

In March 2002, we recorded a \$37 million pre-tax charge for costs associated with the implementation of the new structure, including \$34 million for employee severance and benefit costs and \$3 million related to abandoned operating lease agreements. Under the new structure, approximately 1,800 field-level administrative and operational positions have been eliminated. Our obligation for severance payments will continue during the second half of 2002 and, in some cases, into 2003. As of June 30, 2002, payments of \$22 million for employee severance and benefits and for abandoned leases had been recorded against the liability that was established in March 2002.

We expect to incur an additional \$5 million of restructuring expenses in the second half of 2002 primarily related to the relocation of employees and the consolidation of facilities to support the new organizational structure, which includes organizational changes in the third quarter of 2002 to our CWS operations.

ASSET IMPAIRMENTS AND UNUSUAL ITEMS

During the first quarter of 2002, we recorded a net credit to asset impairments and unusual items primarily due to a reversal of a loss contract reserve of approximately \$4 million and adjustments of \$5 million for revisions of estimated losses on assets held-for-sale. These amounts were partially offset by asset impairment charges primarily relating to our 2002 restructuring efforts. We incurred no such costs during the second quarter of 2002.

For the three and six months ended June 30, 2001, asset impairments and unusual items were primarily attributable to our divestiture activities, offset in part by a reversal of a loss contract reserve that was determined to be excessive after a favorable renegotiation of that specific contract.

INTEREST EXPENSE

Interest expense decreased by \$31 million and \$69 million for the three and six months ended June 30, 2002, respectively, as compared to the corresponding periods in 2001. Interest rate swap contracts reduced interest expense by \$23 million and \$43 million for the three and six months ended June 30, 2002, respectively, and \$5 million and \$6 million for the corresponding prior year periods. The remaining decrease in interest expense between the second quarter of 2002 and 2001 is primarily due to the repayment or refinancing of debt instruments throughout 2001 and into 2002 at lower interest rates.

PROVISION FOR INCOME TAXES

We recorded a provision for income taxes of \$135 million and \$219 million for the three and six months ended June 30, 2002, respectively, and \$113 million and \$202 million for the corresponding periods of 2001. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2002 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. For the three and six months ended June 30, 2001, the difference is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles and non-deductible costs associated with the impairment and divestiture of certain businesses. Additionally, in the second quarter of 2001, scheduled Canadian federal and provincial tax rate reductions resulted in a tax benefit of \$42 million, which was offset in part by a tax expense of \$30 million related to our plan to repatriate certain Canadian capital and earnings previously deemed permanently invested in Canada.

EXTRAORDINARY ITEMS

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

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

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

As a result of adopting Statement of Financial Accounting Standards ("SFAS") No. 141, "Accounting for Business Combinations," on January 1, 2002, we were required to write-off amounts of negative goodwill that had been recorded in prior periods through purchase accounting. The aggregate amount of negative

goodwill was \$2 million and was recorded as a credit to cumulative effect of change in accounting principle in the first quarter of 2002.

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

LIQUIDITY AND CAPITAL RESOURCES

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

SIX MONTHS ENDED JUNE 30, -----		
----- 2002 2001 -----	Cash	
	and cash equivalents at the end of	
	the period.....	\$ 720 \$ 396
=====	Cash provided by	
	operating	
	activities.....	\$
884	\$ 866	=====
	Cash used in	
	investing	
	activities.....	
\$(449)	\$(449)	=====
	Cash used	
	in financing	
	activities.....	
\$(447)	\$(114)	=====

We generated cash flows from operations of \$884 million for the six months ended June 30, 2002. During that period, we spent \$449 million for investing activities, which was comprised of capital expenditures of \$552 million and acquisitions of businesses of \$64 million, offset by proceeds from sales of assets and cash generated from other investing activities of \$167 million. In addition, we used \$447 million for financing activities, which included \$500 million spent for our stock buy back program, offset by \$30 million of net debt borrowings and \$23 million from exercises of common stock options and warrants.

For the six months ended June 30, 2001, we generated cash flows from operations of approximately \$866 million. We used \$449 million for our investing activities during the six months ended June 30, 2001. Included in our investing activities for this period were capital expenditures of \$474 million and acquisitions of solid waste businesses of \$65 million offset by proceeds from sales of assets and other investing activities of \$90 million. In addition, we used \$114 million for financing activities which is primarily comprised of \$133 million of net debt reductions offset by proceeds from exercises of common stock options and warrants and other financing activities.

The following summary of free cash flows has been prepared to highlight and facilitate understanding of the primary cash flow elements. It is not intended to replace the consolidated statements of cash flows for the six months ended June 30, 2002 and 2001, which were prepared in accordance with generally accepted accounting principles. Adjusted free cash flow in the table below, which is not a measure of financial performance in accordance with generally accepted accounting principles, is defined as cash flows from operations less capital expenditures and then adjusted for certain cash flow activity that the Company considers as unusual for the respective periods.

The analysis of free cash flows for the six months ended June 30, 2002 and 2001 is as follows (in millions):

SIX MONTHS ENDED JUNE 30, -----	2002	2001	-----
EBITDA(a).....	\$1,434	\$1,469	
Interest paid, net of interest rate swap receipts.....	(242)	(312)	
Taxes paid.....			(56)
(19) Change in assets and liabilities, net of effects of acquisitions and divestitures, and other.....	(252)	(272)	
Net cash provided by operating activities.....	884	866	
Capital expenditures.....			(552)
Free cash flow.....			332
Adjustments: Payments for terminating the WM Holdings' defined benefit pension plan.....			-- 13
Accounting and consulting services.....			-- 64
Litigation settlements.....			-- 38
Other.....	-- (1)		
Adjusted free cash flow.....	\$ 332	\$ 506	
	=====	=====	

(a) EBITDA is defined herein as income from operations excluding depreciation and amortization, asset impairments and unusual items, and restructuring related expenses. EBITDA is not a measure of financial performance under generally accepted accounting principles, but we have provided it here because we understand that such information is used by certain investors when analyzing the Company's financial position and performance.

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

- the essential nature of the services we provide and our large and diverse customer base;
- our ability to generate strong and consistent cash flows;
- our asset base; and
- our commitment to maintaining a moderate financial profile and disciplined capital allocation.

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

As of June 30, 2002, we had a \$620 million syndicated revolving credit facility (the "Three Year Revolver"), which was increased to \$650 million by August 2002, and a \$1.75 billion syndicated revolving credit facility (the "Five Year Revolver"). No balances were outstanding from the Company's revolving credit facilities as of December 31, 2001 or June 30, 2002. The Three Year Revolver matures in June 2005 and the Five Year Revolver matures in June 2006. As of June 30, 2002, we had letters of credit in the aggregate amount of approximately \$1,570 million (of which approximately \$1,450 million are issued under the revolving credit facilities) that generally have terms allowing automatic renewal after a year. At June 30, 2002, we had unused and available credit capacity under these facilities of approximately \$920 million.

We manage our debt portfolio by using interest rate derivatives to achieve our desired position of fixed and floating rate debt of approximately 65% fixed and 35% floating at June 30, 2002. In addition, we

periodically enter into financing transactions to secure the then current market interest rate in anticipation of senior debt issuances.

In May 2002, we privately placed \$500 million of 7 3/4% senior unsecured notes due May 15, 2032. Interest on the notes is due on November 15 and May 15 of each year. The net proceeds of the offering were approximately \$498 million, after deducting underwriters' discounts and expenses. We used a portion of these proceeds to pay the \$300 million of 6.625% senior notes that matured on July 15, 2002, and have invested the remaining proceeds in cash equivalent investments pending their expected use for repayment of a portion of senior notes that will mature during 2002.

We believe that our available short-term and long-term capital resources are sufficient to fund our capital expenditure and working capital requirements, scheduled debt payments, interest and income tax obligations and other obligations including acquisitions and share repurchases described below. Our capital requirements include (i) capital expenditures for construction and expansion of landfill sites, as well as new trucks and equipment for collection operations, (ii) refurbishments and improvements at waste-to-energy facilities and (iii) business acquisitions. We currently expect to spend approximately \$700 million for capital expenditures and approximately \$185 million for the purchases of businesses during the final half of 2002.

We have \$285.7 million of 7.7% senior notes due October 1, 2002 and \$350 million of 6.5% senior notes due December 15, 2002. We intend to use the remaining funds received from our May 2002 \$500 million senior issuance and other sources of long-term financing to refinance the borrowings. However, if other sources of long-term financing are not available, we intend to use our revolving credit facilities. Consequently, we have classified these borrowings as long-term at June 30, 2002 and December 31, 2001 based upon our ability to use our revolving credit facilities, which are both long-term, to refinance these borrowings.

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

In March 2002, we entered into an accelerated stock repurchase master agreement to facilitate the repurchase of shares of our common stock. Pursuant to the agreement, we may from time to time enter into transactions to purchase shares from the counterparty for a notional amount equal to the fair market value of the shares on the date that we elect to purchase. Six months from the date of purchase, the parties enter into a settlement pursuant to which, if the weighted average daily market prices for the stock during such six month period (other than certain days during which we are entitled to purchase in the market) times the number of shares initially purchased is greater than the notional amount, we will pay the counterparty the difference. If the weighted average daily market price for the valuation period times the number of shares initially purchased is less than the notional amount, the counterparty will pay us the difference. We have the option of paying the settlement amount, if any, in shares of our common stock or with cash. Were we to settle in shares of common stock, we would issue those shares out of treasury.

In the first quarter of 2002, we entered into a transaction to purchase stock under the agreement, purchasing approximately 10.9 million shares at \$27.46 per share for a total of approximately \$300 million. We accounted for the initial payment as a purchase of treasury stock and have classified the future settlement with the counterparty as an equity instrument. Under the agreement, the number of shares to be issued, if we were required to pay the counterparty and elected to net settle in shares, is capped at ten million shares. The settlement will not occur until September 2002, and therefore, we are unable at this time to predict the number of shares, if any, we would have to issue were we to elect that payment option.

Based on our weighted average stock price through June 30, 2002, and July 31, 2002, we would expect to receive in cash approximately \$6 million and \$14 million, respectively, from the counterparty to settle the contracts. However, for every one dollar of change in the weighted average price of our common stock during the valuation period, the settlement amount would change by \$10.9 million.

We have also engaged in open market purchases of our common stock during those periods when, per Company policy, there is an open trading window. During the second quarter of 2002, excluding the transaction under the accelerated stock repurchase master agreement, we had repurchased approximately

7.3 million shares for a total of approximately \$200 million. As previously announced, our intention is to repurchase up to \$1 billion each year, and we currently expect that we will have purchased very close to that amount at the end of 2002.

In November 2001, we announced that we had entered into an agreement to settle the consolidated class action lawsuit filed against us in July 1999 alleging violations of the federal securities laws by payment of \$457 million to the class members. We expect our net cash outflow, after considering insurance, tax deductions and related settlement costs, to be approximately \$230 to \$240 million. The Court approved the settlement in April 2002; however, there is currently a motion to vacate pending before the Court. If the Court denies the motion, a thirty day appeal period will begin. If an appeal is filed, the judgment will not become final until all appeals are exhausted or dismissed. We do not have to pay the settlement until the judgment is final. However, our settlement fund began to accrue interest, at the Federal Funds rate, beginning June 30, 2002. We currently expect that we will fund the settlement in late 2002.

SPECIAL PURPOSE ENTITIES

On June 30, 2000, two limited liability companies ("LLCs") were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we operate under an agreement with the owner. John Hancock Life Insurance Company ("Hancock") has a 99.5% ownership in one of the LLCs. The second LLC is 99.5% collectively owned by Hancock and the CIT Group ("CIT"). We have a 0.5% interest in both LLCs. Hancock and CIT made an initial investment of approximately \$167 million in the LLCs. The LLCs used these proceeds to purchase the three waste-to-energy facilities that we operate and assumed the seller's indebtedness related to these facilities. Under the LLC agreements the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all the members of the LLCs to dissolve the LLCs, (ii) December 31, 2063, (iii) the entry of a decree of judicial dissolution under the Delaware Limited Liability Company Act, or (iv) the LLCs cease to own any interest in these waste-to-energy facilities. Additionally, income, losses and cash flows are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, the amounts will be allocated 20% to Hancock and CIT and 80% to us. We do not expect Hancock and CIT to achieve the targeted returns in 2002. We account for the underlying leases as operating leases. As of June 30, 2002, the remaining aggregate lease commitments related to these waste-to-energy facilities are \$389 million.

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

We are the manager of the LLCs but there are significant limitations on the powers of the manager under the LLC agreements. Accordingly, we account for our interest in the LLCs under the equity method of accounting. These investments have a carrying value of approximately \$1 million at both June 30, 2002 and December 31, 2001. If we were required to consolidate the LLCs, we would record approximately \$420 million in assets, and \$209 million of debt as of June 30, 2002. The remaining balance that would be recorded would primarily be minority interest. There would be no material net impact to our results of operations if we consolidated the LLCs instead of accounting for them under the equity method.

ACCOUNTING FOR STOCK OPTIONS

We account for our stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as amended, under which no compensation cost for stock options is recognized when granted with an exercise price equal to fair value. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"), establishes accounting and annual disclosure requirements for options granted after 1995 using a fair-value-based method of accounting. As of June 30, 2002, we had 47.6 million stock options and warrants

outstanding. The weighted average fair value per share of stock options and warrants granted during the three and six months ended June 30, 2002 was \$9.17 and \$9.24, respectively. This value is estimated using the Black-Scholes option-pricing model, a formula that calculates an assumed value of stock options based on appreciation and interest assumptions. The fair value calculation using Black-Scholes is not necessarily indicative of the actual value of a stock option.

If we applied the recognition provisions of SFAS No. 123, we would have recognized additional compensation expense of approximately \$32 million, or \$(0.03) per share, and \$59 million, or \$(0.06) per share, for the three and six months ended June 30, 2002, respectively.

SEASONALITY AND INFLATION

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

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

NEW ACCOUNTING PRONOUNCEMENTS

SFAS NO. 141 AND SFAS NO. 142

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

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

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

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

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,		
	2002	2001	2002	2001
income.....	\$ 217	\$ 191	\$ 355	\$ 315
	Add back:			
	goodwill amortization, net of			
taxes.....	-- 31	-- 62		
	Adjusted net			
income.....	\$ 217	\$ 222	\$ 355	\$ 377
	=====			
	BASIC EARNINGS PER COMMON SHARE:			
	Reported net			
income.....	\$0.35	\$0.31	\$0.57	\$0.50
	Goodwill amortization, net of			
taxes.....	-- 0.05	-- 0.10		
	Adjusted net			
income.....	\$0.35	\$0.36	\$0.57	\$0.60
	=====			
	DILUTED EARNINGS PER COMMON SHARE:			
	Reported net			
income.....	\$0.35	\$0.30	\$0.57	\$0.50
	Goodwill amortization, net of			
taxes.....	-- 0.05	-- 0.10		
	Adjusted net			
income.....	\$0.35	\$0.35	\$0.57	\$0.60
	=====			

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

COVENANTS LICENSES, CUSTOMER NOT-TO-PERMITS LISTS COMPETE AND OTHER				
TOTAL				
	----- Intangible			
assets.....	\$127	\$ 95	\$18	\$ 240
	Less accumulated			
amortization.....	(53)	(6)	(129)	(70)
	\$ 57	\$ 42	\$12	\$ 111
	=====			

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

2002	
2003	
2004	
2005	
2006	
-	
-	
-	
-	
-	
-	
-	
-	
\$34	
\$30	
\$22	
\$13	
\$7	

As of June 30, 2002, the amount of goodwill attributable to WTI was approximately \$783 million. The remaining goodwill balance of approximately \$4,252 million was attributable to NASW (excluding WTI).

SFAS NO. 143

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

SFAS No. 143 will impact our accounting for our landfill operations. Costs associated with future capping activities that occur during the operating life of a landfill, which are currently recognized on an undiscounted basis over the operating life of the landfill as airspace is consumed, will be accounted for as an

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

SFAS NO. 144

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

SFAS NO. 145

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

SFAS NO. 146

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, such as restructurings, involuntarily terminating employees, and consolidating facilities initiated after December 31, 2002.

PART II

ITEM 1. LEGAL PROCEEDINGS.

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

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

At our 2002 Annual Meeting of Stockholders held on May 17, 2002, a proposal to elect the nominees listed in the following table as directors of the Company was submitted to a vote of our stockholders. The following table also shows the results of voting as to each nominee:

FOR WITHHELD -----	Pastora San
Juan Cafferty.....	541,439,895 9,007,888
Rothmeier.....	541,483,380 8,964,403

At the same meeting, the following proposals were also adopted by our stockholders. The voting was as follows:

FOR AGAINST WITHHELD -----	Ratification
-----	of Ernst & Young LLP as our
	independent auditors for the
	fiscal year ending December 31,
	2002.....
	538,230,517 10,084,086 2,132,800
	Amendment to Certificate of
	Incorporation to provide for
	election of directors
	annually.....
	483,768,342
	2,456,795 3,028,342

The following proposal was submitted to our stockholders, but was not approved. The vote was as follows:

FOR AGAINST WITHHELD -----	Require disclosure of
-----	management's plan to oppose
	privatization.....
	17,564,495 457,281,324 14,407,650

ITEM 5. OTHER INFORMATION.

None.

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

(a)Exhibits:

EXHIBIT NO.	
DESCRIPTION -	

-----	3.1
--	Second
	Amended and
	Restated
	Certificate
	of
	Incorporation
	of Waste
	Management,
	Inc. 3.2 --
	Bylaws (as
	amended) of
	Waste
	Management,
	Inc. 10.1 --
	Waste
	Management,
	Inc.

Retirement
Savings
Restoration
Plan. 10.2 --
Revolving
Credit
Agreement
dated the
27th day of
June, 2002,
by and among
Waste
Management,
Inc., Waste
Management
Holdings,
Inc., each of
the financial
institutions
party
thereto, and
Fleet
National Bank
as
administrative
agent, J.P.
Morgan
Securities
Inc. and Banc
of America
Securities
LLC as joint
lead
arrangers and
joint book
managers,
JPMorgan
Chase Bank
and Bank of
America, N.A.
as co-
syndication
agents, and
Deutsche Bank
AG, New York
Branch and
Citibank,
N.A. as co-
documentation
agent. 12 --
Computation
of Ratio of
Earnings to
Fixed
Charges.

(b) Reports on Form 8-K:

None.

SIGNATURES

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

WASTE MANAGEMENT, INC.

By: /s/ WILLIAM L. TRUBECK

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

WASTE MANAGEMENT, INC.

By: /s/ ROBERT G. SIMPSON

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

Date: August 2, 2002

INDEX TO EXHIBITS

EXHIBIT NO.
DESCRIPTION -

----- 3.1 --
Second
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Certificate
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Management,
Inc., Waste
Management
Holdings,
Inc., each of
the financial
institutions
party
thereto, and
Fleet
National Bank
as
administrative
agent, J.P.
Morgan
Securities
Inc. and Banc
of America
Securities
LLC as joint
lead
arrangers and
joint book
managers,
JPMorgan
Chase Bank
and Bank of
America, N.A.
as co-
syndication
agents, and
Deutsche Bank
AG, New York
Branch and
Citibank,
N.A. as co-
documentation
agent. 12 --
Computation
of Ratio of
Earnings to
Fixed
Charges.

SECOND RESTATED CERTIFICATE OF INCORPORATION
OF
WASTE MANAGEMENT, INC.

Waste Management, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

1. The name of the Corporation is Waste Management, Inc., and the name under which the Corporation was originally incorporated is USA Waste Services, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was April 28, 1995.
2. This Second Restated Certificate of Incorporation restates and integrates and further amends the Restated Certificate of Incorporation of this Corporation by amending Article Ninth to provide for the election of directors annually.
3. The text of the Restated Certificate of Incorporation as amended or supplemented heretofore is further amended hereby to read as herein set forth in full:

First: The name of the Corporation is "Waste Management, Inc."

Second: The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name and address of its registered agent is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

Third: The nature of the business, objects and purposes to be transacted, promoted or carried on by the Corporation is:

To engage in any lawful activity for which corporations may be organized under the General Corporation Law of Delaware.

Fourth: The total number of shares of capital stock which the Corporation shall have authority to issue is one billion, five hundred and ten million (1,510,000,000), divided into one billion, five hundred million (1,500,000,000) shares of Common Stock of the par value of one cent (\$0.01) per share and ten million (10,000,000) shares of Preferred Stock of the par value of one cent (\$0.01) per share.

A. No holder of Common Stock or Preferred Stock of the Corporation shall have any pre-emptive, preferential, or other right to purchase or subscribe for any shares of the unissued stock of the Corporation or of any stock of the Corporation to be issued by reason of any increase of the authorized capital stock of the Corporation or of the number of its shares,

or of any warrants, options, or bonds, certificates of indebtedness, debentures, or other securities convertible into or carrying options or warrants to purchase stock of the Corporation or of any stock of the Corporation purchased by it or its nominee or nominees or other securities held in the treasury of the Corporation, whether issued or sold for cash or other consideration or as a dividend or otherwise other than, with respect to Preferred Stock, such rights, if any, as the Board of Directors in its discretion from time to time may grant and at such price as the Board of Directors in its discretion may fix.

B. The holders of Common Stock shall have the right to one vote per share on all questions to the exclusion of all other classes of stock, except as by law expressly provided, as otherwise herein expressly provided or as contained within a certificate of designation, with respect to the holders of any other class or classes of stock.

C. The Board of Directors is authorized, subject to limitations prescribed by law, by resolution or resolutions to provide for the issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(1) The number of shares constituting that series and the distinctive designation of that series;

(2) The dividend rights and dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(3) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(4) Whether that series shall have conversion or exchange privileges, and, if so, the terms and conditions of such conversion or exchange including provision for adjustment of the conversion or exchange rate in such events as the Board of Directors shall determine;

(5) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable,

and the amount per share payable in cash on redemption, which amount may vary under different conditions and at different redemption dates;

(6) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(7) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series;

(8) Any other relative rights, preferences and limitations of that series; or

(9) Any or all of the foregoing terms.

D. Except where otherwise set forth in the resolution or resolutions adopted by the Board of Directors of the Corporation providing for the issue of any series of Preferred Stock created thereby, the number of shares comprising such series may be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors of the Corporation. Should the number of shares of any series be so decreased, the shares constituting such decrease shall resume the status which they had prior to adoption of the resolution originally fixing the number of shares of such series.

E. Shares of any series of Preferred Stock which have been redeemed (whether through the operation of a sinking fund or otherwise), purchased or otherwise acquired by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes, shall have the status of authorized and unissued shares of Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reclassified or reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of Preferred Stock, all subject to the conditions or restrictions adopted by the Board of Directors of the Corporation providing for the issue of any series of Preferred Stock and to any filing required by law.

Fifth: The Corporation is to have perpetual existence.

Sixth: Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide. Meetings of stockholders may be held within or without the State of Delaware, as the bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes of the

State of Delaware) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the bylaws of the Corporation.

Seventh: No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of Delaware or any amendment thereto or successor provision thereto, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of Delaware hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended General Corporation Law of Delaware. Neither this Second Restated Certificate of Incorporation nor any amendment, alteration, or repeal of this Article, nor the adoption of any provision of the Second Restated Certificate of Incorporation inconsistent with this Article, shall adversely affect, eliminate, or reduce any right or protection of a director of the Corporation hereunder with respect to any act, omission or matter occurring, or any action, suit, or claim that, but for this Article, would accrue or arise, prior to the time of such amendment, modification, repeal, or adoption of an inconsistent provision. All references in this Article to a "director" shall also be deemed to refer to such person or persons, if any, who pursuant to a provision of the Second Restated Certificate of Incorporation in accordance with subsection (a) of Section 141 of the Delaware General Corporation Law, exercise or perform any of the powers or duties otherwise conferred or imposed upon the Board of Directors by the Delaware General Corporation Law.

Eighth: This Corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request shall advance expenses to any person who is or was a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was or has agreed to be a director or officer of this Corporation or any of its direct or indirect subsidiaries or while such a director or officer is or was serving at the request of this Corporation as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines, penalties and amounts paid in settlement incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim; provided, however, that the foregoing shall not require this Corporation to indemnify or advance expenses to any person in connection with any action, suit,

proceeding, claim or counterclaim initiated by or on behalf of such person. Such indemnification shall not be exclusive of other indemnification rights arising under any bylaws, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any person seeking indemnification under this Article shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established.

Ninth: (A) Except as otherwise provided in this Second Restated Certificate of Incorporation or the bylaws of the Corporation relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances, the number of directors of the Corporation shall be as fixed from time to time by, or in the manner provided in, the bylaws of the Corporation. Unless approved by at least two-thirds of the incumbent directors, the number of directors which shall constitute the whole Board of Directors shall be no fewer than three and no more than nine.

(B) Commencing with the election of directors at the 2003 Annual Meeting of Stockholders, all directors, other than those who may be elected by the holders of any class or series of Preferred Stock voting separately by class or series, shall be elected annually. Notwithstanding the foregoing provision of this Article, each director shall serve until his successor is duly elected and qualified or until his earlier death, resignation or removal.

(C) Except as otherwise provided pursuant to the provisions of this Second Restated Certificate of Incorporation or the bylaws of the Corporation relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, any director or directors may be removed from office at any time, with or without cause but only by the affirmative vote, at any annual meeting or special meeting (as the case may be) of the stockholders, of not less than two-thirds of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposal was contained in the notice of such meeting.

(D) In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships resulting from such increase or decrease shall be appointed or determined by the Board of Directors. No decrease in the authorized number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(E) Vacancies in the Board of Directors, however caused, and newly-created directorships shall be filled solely by a majority vote of the directors then in office, whether or not a quorum, and any director so chosen shall hold office until his successor is duly elected and qualified or until his earlier death, resignation or removal.

(F) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of this Second Restated Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article unless expressly provided by such terms.

(G) Notwithstanding any other provision of this Second Restated Certificate of Incorporation or the bylaws of the Corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Second Restated Certificate of Incorporation or the bylaws of the Corporation), the affirmative vote, at any regular meeting or special meeting of the stockholders, of not less than two-thirds of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with the purpose or intent of, this Article, but only if notice of the proposed alteration or amendment was contained in the notice of such meeting.

Tenth: In furtherance of, and not in limitation of, the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend or repeal the bylaws of the Corporation, or adopt new bylaws, without any action on the part of the stockholders; provided, however, that no such adoption, amendment or repeal shall be valid with respect to bylaw provisions which have been adopted, amended or repealed by the stockholders; and further provided, that bylaws adopted or amended by the Directors and any powers thereby conferred may be amended, altered or repealed by the stockholders.

Eleventh: The Corporation reserves the right at any time, and from time to time, to amend, alter, change, or repeal any provision contained in this Second Restated Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences, and privileges of whatsoever nature conferred upon stockholders, directors, or any other persons whomsoever by and pursuant to this Second Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article; provided, however, that the Corporation shall not amend

Article Ninth to be effective on a date other than a date on which directors are elected.

4. This Second Restated Certificate of Incorporation was duly adopted by vote of the stockholders in accordance with Section 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, WASTE MANAGEMENT, INC. has caused this Second Restated Certificate of Incorporation to be signed by David P. Steiner, its Senior Vice President, General Counsel and Corporate Secretary, this 24th day of May, 2002.

WASTE MANAGEMENT, INC.

/s/ David P. Steiner

David P. Steiner
Senior Vice President, General Counsel
and Corporate Secretary

BY-LAWS
OF
WASTE MANAGEMENT, INC.
(f/k/a USA WASTE SERVICES, INC.)
AS OF MAY 17, 2002

ARTICLE I
OFFICES

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

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

ARTICLE II
MEETINGS OF STOCKHOLDERS

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

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

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

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

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

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

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

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

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

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

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

If shares or other securities having voting power stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given written notice to the

contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

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

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

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

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

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

SECTION 2.9. Conduct of Meeting. The meetings of the stockholders shall be presided over by the Chairman of the Board (if any), or if he is not present, by the Vice Chairman of the Board (if any, but if there is more than one, the Vice Chairman who is senior in terms of time as such), or if neither the Chairman of the Board (if any) nor the Vice Chairman of the Board (if any) is present, by the President, or if neither the Chairman of the Board (if any), the Vice Chairman of the Board (if any) nor President is present, by a chairman elected at the meeting. The Secretary of the Corporation, if present, shall act as secretary of such meetings, or if he is not present, an Assistant Secretary shall so act; if neither the Secretary nor an Assistant Secretary is present, then a secretary shall be appointed by the chairman of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him in order. Unless the chairman of the meeting of stockholders shall otherwise determine, the order of business shall be as follows:

(a) Calling of meeting to order.

(b) Election of a chairman and the appointment of a secretary if necessary.

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

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

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

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

notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

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

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

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

determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 2.12, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

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

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

To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 120 days nor more than 150 days in advance of the date the Corporation's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that if no annual meeting was held the previous year or the date of the annual meeting has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received at least 80 days prior to the date the Corporation intends to distribute its proxy statement with respect to such meeting. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination, (b) the name, age, business address, and home address of the person or persons to be nominated; (c) the principal occupation of the person or persons nominated; (d) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting and intends to appear at the meeting to nominate the person or persons specified in the notice; (e) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (f) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (g) the consent of each nominee to serve as a director of the Corporation if so elected. At the request of the

Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

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

ARTICLE III

BOARD OF DIRECTORS

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

SECTION 3.2. Number, Election and Term. Except as otherwise provided in the Certificate of Incorporation relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances, the number of directors of the Corporation shall initially be the number specified in the Certificate of Incorporation, and subject to the following sentence, such number may be increased or decreased by a resolution duly adopted by the Board of Directors. Unless approved by at least two-thirds of the incumbent directors, the number of directors which shall constitute the whole Board of Directors shall be no fewer than three and no more than nine. Unless otherwise provided in the Certificate of Incorporation, directors need not be residents of Delaware or stockholders of the Corporation.

Commencing with the election of directors at the 2003 annual meeting of stockholders, all directors, other than those who may be elected by the holders of any class or series of Preferred Stock, voting separately by class or series, shall be elected annually. Notwithstanding the foregoing provision of this Article, each director shall serve until his successor is duly elected and qualified or until his earlier death, resignation or removal.

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

stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposal was contained in the notice of such meeting.

In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships resulting from such increase or decrease shall be appointed or determined by the Board of Directors. Vacancies in the Board of Directors, however caused, and newly-created directorships shall be filled solely by a majority vote of the directors then in office, whether or not a quorum, and any director so chosen shall hold office until his successor is duly elected and qualified, subject, however, to prior death, resignation, retirement, disqualification or removal from office. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

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

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

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

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

SECTION 3.8. Quorum and Participation. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of

the Board of Directors, except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these by-laws. Members of the Board of Directors, may participate in a meeting of the Board of Directors or such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person and attendance at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

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

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

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

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

ARTICLE IV

COMMITTEES OF DIRECTORS

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

SECTION 4.2. Procedure; Meetings; Quorum. Any committee designated pursuant to Section 4.1 shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures to the extent not otherwise set forth in the Charter or resolution with respect to such committee adopted by the Board of Directors, and shall meet at such times and at such place or places as may be provided by such rules, by the Charter for such committee adopted by the Board of Directors, or by resolution of such committee or resolution of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any resolution. Unless otherwise restricted by the Certificate of Incorporation or by these by-laws, the members of any committee designated by these by-laws or the Board of Directors, may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting may hear each other, and such participation shall constitute presence in person at such meeting. Unless otherwise restricted by the

Certificate of Incorporation or these by-laws, any action required or permitted to be taken at any meeting of any committee of the Board of Directors may be taken without a meeting if all members of such committee consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of the committee.

SECTION 4.3. Compensation. Members of special or standing committees may be allowed compensation for attending committee meetings, if the Board of Directors shall so determine.

ARTICLE V

NOTICE

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

SECTION 5.2. Written Waiver. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or the by-laws.

ARTICLE VI

OFFICERS

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

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

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

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

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

SECTION 6.6. Chairman of the Board. The Chairman of the Board (if such office is created by the Board) shall have all powers and shall perform all duties incident to the office of

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

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

SECTION 6.8 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general manage, supervise, and control the properties, business, and affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. Unless the Board of Directors otherwise determines, the Chief Executive Officer shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the Stockholders and (should he be a director) of the Board of Directors. He may also preside at any such meeting attended by the Chairman of the Board if he is so designated by the Chairman. He shall have the power to appoint and remove subordinate officers, agents, and employees, except those elected or appointed by the Board of Directors. The Chief Executive Officer shall keep the Board of Directors and the Executive Committee fully informed and shall consult them concerning the business of the Corporation. He shall perform all other duties normally incident to the office of Chief Executive Officer and such other duties, and shall have such other powers, as may be prescribed by the stockholders, the Board of Directors or the Executive Committee (if any) from time to time.

SECTION 6.9 President. The President shall be the chief operating officer of the Corporation and, subject to the control of the Chief Executive Officer and the Board of Directors, shall in general manage, supervise and control the properties, business and day-to-day affairs of the Corporation with all such powers as may be reasonably incident to such responsibilities. In the absence of the Chief Executive Officer, or in the event of his inability or refusal to act, the President shall perform the duties and exercise the powers of the Chief Executive Officer. In the absence of the Chairman of the Board and the Chief Executive Officer, the President shall preside at all meetings of

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

SECTION 6.10. Vice Presidents. The Board of Directors may appoint such Vice Presidents, including, Executive or Senior Vice Presidents, as it may determine to be in the best interests of the Corporation. In the absence of the President, or in the event of his inability or refusal to act, the Executive Vice President (or in the event there shall be no Vice President designated Executive Vice President, any Vice President designated by the Board) shall perform the duties and exercise the powers of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. In the absence of a designation by the Board of Directors of a Vice President to perform the duties of the President, or in the event of his absence or inability or refusal to act, the Vice President who is present and who is senior in terms of time as a Vice President of the Corporation shall so act. Any Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation. Each Vice President shall perform all duties incident to the office of Vice President and shall have such powers and perform such other duties, as from time to time may be assigned to him by these by-laws or by the Chief Executive Officer, the President, the Board of Directors, or the Executive Committee (if any).

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

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

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

SECTION 6.13. Assistant Secretary or Controller. The Assistant Secretaries and Assistant Controllers shall, in general, perform such duties and have such powers as shall be assigned to them by the Secretary or the Controller, respectively, or by the Chief Executive Officer, the President, the Board of Directors or the Executive Committee. The Assistant Secretaries and Assistant Controller shall, in the absence or inability or refusal to act of the Secretary or Controller, respectively, perform all functions and duties which such absent officers may delegate, but such delegation shall not relieve the absent officer from the responsibilities and liabilities of his office. The Assistant Secretaries may sign, with the President or a Vice President, certificates for shares of the Corporation, the issue of which shall have been authorized by a resolution of the Board of Directors. The Assistant Controllers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine.

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

SECTION 7.1. Contracts. Except as otherwise provided in these by-laws or by law or as otherwise directed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, and Vice President, or the Secretary shall be authorized to execute and deliver, in the name and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate shall be affixed thereto by any such officer or the Secretary or an Assistant Secretary. The Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the President or, if designated by the Board of Directors, the Chairman of the

Board, the Chief Executive Officer, or the President, any Vice President or the Secretary, may authorize any other officer, employee, or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board of Directors or any such officer may be general or confined to specific conditions. Subject to the foregoing provisions, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

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

SECTION 7.3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select. Checks, drafts, bills of exchange, acceptances, notes, obligations, and orders for payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Controller and/or such other officers or persons as the Board of Directors from time to time may designate.

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

ARTICLE VIII

CERTIFICATES OF STOCK

SECTION 8.1. Issuance. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all classes or series of the Corporation's stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by

certificates and upon request every holder of uncertificated shares shall be entitled to a certificate or certificates showing the number of shares of stock registered in his name on the books of the Corporation. The certificates shall be in such form as may be determined by the Board of Directors, shall be issued in numerical order and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares (and if the stock of the Corporation shall be divided into classes or series, the class or series of such shares) and shall be signed by the Chairman of the Board, the Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary or the Controller or Assistant Controller. Any of or all of the signatures on the certificate may be facsimiles. The stock record books and the blank stock certificate books shall be kept by the Secretary, or at the office of such transfer agent or transfer agents as the Board of Directors may from time to time by resolution determine. In case any officer, transfer agent or registrar who shall have signed or whose facsimile signature or signatures shall have been placed upon any such certificate or certificates shall have ceased to be such officer, transfer agent or registrar before such certificate is issued by the Corporation, such certificate may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

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

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

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

SECTION 8.3. Transfers. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and register the transaction upon its books. Upon presentation to the Corporation or the transfer agent of the Corporation of an instruction with a request to transfer, pledge or release an uncertificated share or shares, it shall be the duty of the Corporation to register the transfer, pledge or release upon its books, and shall provide the registered owner with such notices as may be required by law. Transfers of shares shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney and filed with the Secretary of the Corporation or the transfer agent.

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

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

ARTICLE IX

DIVIDENDS

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

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

ARTICLE X

INDEMNIFICATION

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

SECTION 10.2. Actions By or in the Right of the Corporation. This Corporation shall, to the maximum extent permitted from time to time under the law of the State of Delaware, indemnify and upon request shall advance expenses to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, proceeding or claim by or on the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was or has agreed to be a director, officer, employee, or agent of this Corporation or any of its direct or indirect subsidiaries or while such person is or was serving at the request of this Corporation as a director, officer, partner, trustee, employee or agent of any corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorney's fees and expenses), judgments, fines,

penalties and amounts paid in settlement actually and reasonably incurred in connection with the investigation, preparation to defend or defense of such action, suit, proceeding or claim if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interest of the Corporation, and except that no indemnification shall be made with respect to any claim, issue, or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Such indemnification shall not be exclusive of other indemnification rights arising under any by-laws, agreement, vote of directors or stockholders or otherwise and shall inure to the benefit of the heirs and legal representatives of such person. Any person seeking indemnification under this Section 10.2 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary shall be established.

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

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

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

For purposes of this Article X, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an

employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article X.

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

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

ARTICLE XI

MISCELLANEOUS

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

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

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

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

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

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

ARTICLE XII

AMENDMENT

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

WASTE MANAGEMENT, INC.
RETIREMENT SAVINGS RESTORATION PLAN

As Amended and Restated Effective April 1, 2001

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WASTE MANAGEMENT, INC.
RETIREMENT SAVINGS RESTORATION PLAN

As Amended and Restated Effective April 1, 2001

ARTICLE 1
INTRODUCTION

1.1 PURPOSE OF PLAN. Waste Management, Inc. (the "Company") established the Waste Management, Inc. Retirement Savings Restoration Plan (the "Plan") to provide certain eligible employees a means to defer a portion of their base salary and/or their bonus to save for retirement. The Plan is primarily designed to give these eligible employees an additional avenue to defer amounts that are in addition to and otherwise limited from deferral under the Waste Management Retirement Savings Plan due to certain limitations established under the Internal Revenue Code for such plan. The Plan is hereby amended and restated effective April 1, 2001.

1.2 STATUS OF PLAN. The Plan is intended to be an unfunded plan maintained by the Company "primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and the Plan shall be interpreted and administered consistent with this intent.

ARTICLE 2
DEFINITIONS

Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

2.1 "ACCOUNT" means an account established for the benefit of a Participant under Section 5.1, which may include one or more sub-accounts.

2.2 "BASE SALARY" means the annual base salary rate payable by an Employer to an Eligible Employee for services performed during any Plan Year that would be includible in the Eligible Employee's gross income for such year determined before deductions made with respect to this Plan, the Qualified Plan, or any other plan maintained by an Employer permitting pre-tax contributions, such as an Employer-sponsored plan established under Code Section 125. Base Salary does not include income from stock option exercises, Bonuses and Bonus Deferrals under this Plan, or any other type of incentive award.

2.3 "BENEFICIARY" means the beneficiary or beneficiaries designated by a Participant or otherwise under Section 7.2 to receive an amount, if any, payable from such Participant's Account upon the death of the Participant.

2.4 "BONUS" means the annual bonus payable under the Company's management incentive plan.

2.5 "BONUS DEFERRAL" means the portion of a Bonus that is deferred by a Participant under Section 4.2 with respect to a Plan Year.

2.6 "CHANGE IN CONTROL" means a Change in Control as such term is defined in the Company's 1996 Stock Option Plan for Non-Employee Directors, as amended from time to time.

2.7 "CODE" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations and rulings issued thereunder. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation that amends, supplements or replaces such section or subsection.

2.8 "COMPANY" means Waste Management, Inc., a Delaware corporation, or any successor corporation thereto.

2.9 "DEFERRAL FORM" means the document or documents, voice response or electronic media prescribed by the Plan Administrator pursuant to which a Participant may make elections to defer a portion of the Participant's Base Salary and/or all or a portion of the Participant's Bonus.

2.10 "EFFECTIVE DATE" means April 1, 2001, the date of the establishment of the Plan.

2.11 "ELECTIVE DEFERRAL" means the portion of Base Salary the receipt of which is deferred by a Participant under Section 4.1 with respect to a Plan Year.

2.12 "ELIGIBLE EMPLOYEE" means an Employee who satisfies the eligibility requirements set forth in Article 3.

2.13 "EMPLOYEE" means an employee of an Employer who is an eligible employee within the meaning of the Qualified Plan.

2.14 "EMPLOYER" means the Company or an affiliated corporation of the Company that is an adopting employer under the Qualified Plan.

2.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations and rulings issued thereunder. Reference to any section or subsection of ERISA includes reference to any comparable or succeeding provisions of any legislation that amends, supplements or replaces such section or subsection.

2.16 "LIMIT" means the Code Section 402(g) limit, and for 2001 the Code Section 401(a)(17), under the Qualified Plan.

2.17 "MATCHED DEFERRAL" means a Participant's Elective Deferrals and Bonus Deferrals under the Plan after the Participant reaches the Limit.

2.18 "MATCHING ALLOCATION" means an allocation by the Employer for the benefit of a Participant who is an Eligible Employee, as described in Section 4.4.

2.19 "PARTICIPANT" means a current or former Eligible Employee who participates in the Plan in accordance with Article 3 or maintains an Account balance hereunder.

2.20 "PAYMENT FORM" means the document or documents, voice response or electronic media prescribed by the Plan Administrator pursuant to which a Participant shall elect the time and form for distribution of his or her Account balance, as provided under Article 7.

2.21 "PLAN" means the Waste Management, Inc. Deferral Savings Plan as provided herein and as amended from time to time.

2.22 "PLAN ADMINISTRATOR" means the individual, individuals or committee designated by the Company as responsible for the administration of the Plan. Unless the Company determines otherwise, the Administrative Committee of the Waste Management Employee Benefit Plans (the "Administrative Committee") shall be the Plan Administrator. Notwithstanding the foregoing, in the event of a Change in Control, the Plan Administrator shall be those individuals who were members of the Board of Directors of the Company immediately prior to the Change in Control and who continue as directors of the Company thereafter, but if there are no continuing directors, the Plan Administrator shall be the Compensation Committee of the Board of Directors of the Company as constituted prior to the Change in Control.

2.23 "PLAN COMMITTEE" means the committee designated by the Company as having the authority to amend and/or terminate the Plan. Unless the Company determines otherwise, the Plan Committee shall consist of the same members as the Administrative Committee.

2.24 "PLAN YEAR" means the calendar year; provided, that, for administrative purposes the initial Plan year shall begin on the Effective Date and end on December 31, 2001.

2.25 "QUALIFIED PLAN" means the Waste Management Retirement Savings Plan, as amended from time to time.

2.26 "TOTAL COMPENSATION" means for a Plan Year the sum of an Eligible Employee's Base Salary and Bonus.

2.27 "TRANSFERRED AMOUNT" means the amount transferred, if any, from the USA Waste Services, Inc. Executive Deferral Plan to this Plan pursuant to a Participant's voluntary election.

ARTICLE 3 ELIGIBILITY AND PARTICIPATION

3.1 ELIGIBILITY.

(a) An Employee whose stated Base Salary and target Bonus as of the first day of a Plan Year exceeds the annual compensation limit established under Code Section 401(a)(17) for such Plan Year shall be eligible to participate in the Plan for such Plan Year. For any Plan Year beginning on or after January 1, 2002, an Employee shall be eligible to participate in the Plan for a Plan Year if his or her stated Base Salary for the year before the Plan Year equals or exceeds

\$170,000, or if the Employee is hired during the Plan Year, his or her stated Base Salary on the Employee's date of hire equals or exceeds \$170,000.

(b) Prior to each Plan Year, the Plan Administrator shall determine the identity of those Employees who are eligible to commence their participation in the Plan pursuant to Section 3.1(a) and those Participants who may continue their participation in the Plan for such Plan Year pursuant to Section 3.1(a). The Plan Administrator will notify those Employees of their eligibility to participate (or continue participation) in the Plan and provide them with a Deferral Form. The Plan Administrator shall have the sole discretion to determine eligibility pursuant to the Plan.

3.2 PARTICIPATION. An Eligible Employee who properly completes a Deferral Form shall become a Participant in the Plan on the first date as of which an Elective Deferral or Bonus Deferral is credited to his or her Account. A Participant in the Plan shall continue to be a Participant so long as any amount remains credited to his or her Account.

3.3 SUSPENSION OF PARTICIPATION. If the Plan Administrator determines that a Participant currently making Elective Deferrals or receiving Matching Allocations no longer satisfies the eligibility requirements of Section 3.1(a) during the Plan Year, the Plan Administrator may suspend the Participant's Elective Deferrals and Matching Allocations until the next following Plan Year as of which the Participant again satisfies such eligibility requirements. In such circumstance, the Plan Administrator shall notify the Participant of such suspension. If the Participant's participation is suspended as described in this Section 3.3 and the Plan Administrator determines that the Participant again satisfies the eligibility requirements of Section 3.1(a), the Plan Administrator shall notify the Participant, and the Participant shall be permitted to resume active participation in the Plan as of the next following Plan Year.

ARTICLE 4 DEFERRALS AND CONTRIBUTIONS

4.1 ELECTIVE DEFERRALS. With respect to any Plan Year, an Eligible Employee may irrevocably elect to defer, on a pre-tax basis, up to 25% (in whole percentages) of his or her Base Salary. Such an election is a separate and independent election from an election to defer compensation under the Qualified Plan.

4.2 BONUS DEFERRALS. With respect to any Plan Year, an Eligible Employee may irrevocably elect to defer all or a portion of his or her Bonus (in whole percentages). Notwithstanding the foregoing, the amount of an Eligible Employee's Bonus eligible for deferral in a given Plan Year shall not exceed the Bonus reduced by sum of any before-tax contributions made to the Qualified Plan and the amount necessary to satisfy the tax due for FICA with respect to such Bonus.

4.3 ELECTIONS.

(a) TIME FOR MAKING DEFERRAL ELECTIONS.

(i) ELECTIVE DEFERRALS.

- (A) Generally. An election to defer Base Salary shall be made prior to the calendar year in which the Base Salary is earned; provided, that, for the Plan Year beginning on the Effective Date, such elections shall be made prior to April 1, 2001 and shall only be effective for Base Salary earned on and after such date. The Plan Administrator will notify each Eligible Employee of the applicable election period and deadline for filing such elections.
 - (B) Newly Eligible Employees. In the case of an Eligible Employee in his or her first year of employment, an election to defer Base Salary must be made within 30 days after the Eligible Employee begins employment and at least five business days before the commencement of the first payroll period for which the election is effective. Such elections are effective only with respect to Base Salary earned after the effective date of the election.
- (ii) BONUS DEFERRALS. An election to defer Bonuses must be made on or before December 31 of the Plan Year that precedes the Plan Year in which the Bonus is otherwise paid.

(b) DEFERRAL FORMS; IRREVOCABILITY. All Deferral Forms for Elective and Bonus Deferrals must be timely filed, recorded or otherwise made in the manner prescribed by the Plan Administrator. An Eligible Employee may change a prior election up to the date established under Section 4.3(i) or (ii), as applicable. However, from and after the last date permitted for making such elections, all deferral elections pursuant to this Article 4 shall be irrevocable.

(c) NO ELECTION. A Deferral Form for a Plan Year shall not apply to subsequent Plan Years. If no election to defer Base Salary or Bonuses is made for a given Plan Year, no deferrals shall be made for such Plan Year.

4.4 MATCHING ALLOCATIONS.

(a) No later than the latest date permitted by Code Section 404 for matching contributions under the Qualified Plan with respect to each Plan Year thereunder (or such later date that the need for a matching contribution is determined), the Employer shall credit a Matching Allocation to the Account of each Participant who is an Eligible Employee and is entitled to such a contribution pursuant to Section 4.4(b).

(b) With respect to each payroll period after a Participant reaches the Limit, such Participant shall receive a Matching Allocation equal to (i) 100% of the Participant's Matched Deferrals up to 3% of the Participant's Total Compensation, plus (ii) 50% of the Participant's Matched Deferrals in excess of 3% of the Participant's Total Compensation, up to 6% of the Participant's Total Compensation. Notwithstanding the foregoing, the Committee, in its sole and absolute discretion, may adjust a Participant's Matching Allocation to the extent necessary to ensure that he or she does not receive matching contributions under this Plan and the Qualified Plan that exceed the sum of (i) 100% of the Participant's deferrals under this Plan and elective contributions under the Qualified Plan up to 3% of Total Compensation and (ii) 50% of the

Participant's deferrals under this Plan and elective contributions under the Qualified Plan in excess of 3% of Total Compensation, up to 6% of Total Compensation.

ARTICLE 5
ACCOUNTS

5.1 ACCOUNTS. The Plan Administrator shall establish an Account for each Participant to reflect Elective Deferrals, Bonus Deferrals, Matching Allocations, if any, and Transferred Amounts made for the Participant's benefit together with any adjustments for income, gain or loss and any payments from the Account. A separate sub-account shall be established for Elective Deferrals, Bonus Deferrals, if any, and Matching Allocations, if any. Elective Deferrals shall be credited as of the end of each payroll period, and Bonus Deferrals shall be credited as of the date on which the Bonus would otherwise be paid. The Accounts are established solely for the purposes of tracking Elective Deferrals, Bonus Deferrals, Matching Allocations and any income adjustments thereto. The Accounts shall not be used to segregate assets for payment of any amounts deferred or allocated under the Plan.

5.2 INVESTMENTS.

(a) Amounts credited to each Participant's Account shall be deemed invested, in accordance with the Participant's directions, in one or more investment funds that are available under the Plan. If a Participant does not make investment elections with respect to amounts credited to his or her Account, such amounts shall be deemed invested in the Moderate Asset Allocation Fund or such other investment fund as the Investment Committee of the Waste Management Employee Benefit Plans may direct.

(b) A Participant shall make his or her investment fund selections at such time as he or she files the Deferral Form, as described in Article 4. Investments must be made in whole percentages. A Participant may change his or her investment elections at any time, or may reallocate amounts invested among the investment funds available under the Plan.

(c) Expense charges for transactions performed for each Participant's sub-account shall be debited against each respective sub-account and shall be listed on the quarterly statement. Other Plan charges and administrative expenses will be paid by the Employer without debit against Participant Accounts.

5.3 STATEMENTS. As soon as practicable following the last business day of each calendar quarter, the Plan Administrator (or its designee) shall provide the Participant with a statement of such Participant's Account reflecting the deemed income, gains and losses (realized and unrealized), amounts of deferrals and distributions with respect to such Account since the prior statement.

ARTICLE 6
VESTING

Subject to the provisions of Sections 7.4, 7.5 and 8.1, a Participant shall at all times have a fully vested and nonforfeitable right to all Elective Deferrals, Bonus Deferrals, if any, and

Matching Allocations, if any, credited to the Participant's Account, adjusted for deemed income, gain and loss attributable thereto.

ARTICLE 7
DISTRIBUTION OF ACCOUNTS

7.1 ELECTION AS TO TIME AND FORM OF PAYMENT.

(a) GENERAL PAYMENT OPTIONS. Except as otherwise permitted in this Article 7, a Participant may elect, on a Payment Form, one of the following payment options for all amounts credited to a Participant's Account:

- (i) a lump sum payment in February of the calendar year following either (A) a future date or age that occurs on or after termination of employment, or (B) retirement at age 65; or
- (ii) annual installments over a period of up to ten years (as elected by the Participant), to begin in February of the calendar year following a specific date or age.

Any such election shall be made in accordance with procedures and rules established by the Plan Administrator.

If a Participant does not make an election, distribution shall be made in a single lump sum in February of the calendar year following the Participant's termination of employment. Payments from a Participant's Account may be in cash or in property, as determined by the Plan Administrator or the trustee of any existing trust from which payment is made.

For purposes of the Plan, a Participant shall terminate employment when the Participant separates from service with the Company and all majority-owned subsidiaries of the Company. However, temporary absence from employment because of illness, vacation, approved leaves of absences, and transfers of employment among the Company and its majority-owned subsidiaries shall not be considered a termination of employment or an interruption of employment.

(b) SCOPE OF ELECTIONS. The elections under this Section 7 shall apply to all amounts credited to a Participant's Account.

(c) PERMITTED CHANGES. Subject to approval by the Plan Administrator, a Participant may change the payment form or date elected for distribution of his or her Account under Section 7.1(a) before any payment is made under his or her existing election by properly completing a new Payment Form and filing such form with the Plan Administrator at least 12 months before the first payment is due under the new election. Such change shall apply to all amounts credited to the Participant's Account.

7.2 DEATH.

(a) If a Participant dies before payment or complete distribution (in the case of installment payouts) of his or her Account, all amounts credited to the Participant's Account

shall be paid to the Participant's designated Beneficiary, according to the Participant's distribution election, unless the Plan Administrator elects, in its sole discretion, to pay out a Participant's Account balance in a single lump sum as soon as practicable following the date of the Participant's death.

(b) A Participant may designate a Beneficiary by notifying the Plan Administrator in writing, at any time before Participant's death, on a form prescribed by the Plan Administrator for that purpose. A Participant may revoke any Beneficiary designation or designate a new Beneficiary at any time without the consent of a Beneficiary or any other person. If no Beneficiary is designated or no Beneficiary survives the Participant, payment shall be made to the Participant's surviving spouse, or, if none, to the Participant's estate.

7.3 UNFORESEEABLE EMERGENCY. If a Participant experiences an unforeseeable emergency, the Plan Administrator, in its sole discretion, may pay to the Participant only that portion, if any, of the Participant's Account that the Plan Administrator determines is necessary to satisfy such emergency, including any amounts necessary to pay any federal, state or local income taxes reasonably anticipated to result from the distribution. A Participant requesting a distribution due to an unforeseeable emergency shall apply for the distribution in writing using a form prescribed by the Plan Administrator for that purpose and shall provide such additional information as the Plan Administrator may require. For purposes of the Plan, an "unforeseeable emergency" is an unanticipated emergency that is caused by an event beyond the control of the Participant or Beneficiary and that would result in severe financial hardship to the Participant or Beneficiary if withdrawal is not permitted. Unforeseeable emergencies may include:

(a) Expenses that are not covered by insurance and that the Participant or his or her spouse or dependent has incurred as a result of, or is required to incur in order to receive medical care;

(b) The need to prevent the eviction of the Participant from his or her principal residence or foreclosure on the mortgage of the Participant's principal residence; or

(c) Any other circumstance that is determined by the Plan Administrator, in the Plan Administrator's sole discretion, to constitute an unforeseeable emergency if an event or circumstance (i) cannot be relieved through reimbursement and is not covered by insurance, (ii) cannot be reasonably relieved by the liquidation of the Participant's or Beneficiary's assets, unless such liquidation itself would cause a severe financial hardship, and (iii) is consistent with the intent of Treasury Regulation Section 1.457-2(h)(4) and (5).

7.4 EARLY DISTRIBUTION. Notwithstanding the foregoing provisions of this Article VII or the provisions of any applicable deferral election, a Participant may elect to receive a lump-sum payment of any or all of his or her Account balance prior to the date prescribed in Section 7.1(a). Such payment shall be made as soon as practicable following the date as of which the Participant requests such payment. The Plan Administrator shall impose a penalty for such early payment, in an amount equal to 10% of the Account balance to be distributed, and such penalty shall be deducted from the distribution and forfeited by the Participant.

7.5 TAXES. Income taxes and other taxes payable with respect to an Account shall be deducted from such Account. All federal, state or local taxes that the Plan Administrator determines are required to be withheld from any payments made pursuant to this Article 7 shall be withheld.

ARTICLE 8
PLAN ADMINISTRATION

8.1 PLAN ADMINISTRATION AND INTERPRETATION. The Plan Administrator shall oversee the administration of the Plan. The Plan Administrator shall have complete control and authority to determine the rights and benefits and all claims, demands and actions arising out of the provisions of the Plan of any Participant, Beneficiary, deceased Participant, or other person having or claiming to have any interest under the Plan. Benefits under the Plan shall be paid only if the Plan Administrator decides in its discretion that the Eligible Employee, Participant or Beneficiary is entitled to them. Notwithstanding any other provision of the Plan to the contrary, the Plan Administrator shall have complete discretion to interpret the Plan and to decide all matters under the Plan. Such interpretation and decision shall be final, conclusive and binding on all Participants and any person claiming under or through any Participant, in the absence of clear and convincing evidence that the Plan Administrator acted arbitrarily and capriciously. Any individual serving as Plan Administrator who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Plan Administrator shall be entitled to rely on information furnished by a Participant, a Beneficiary, the Employer or a trustee (if any). The Plan Administrator shall have the responsibility for complying with any reporting and disclosure requirements of ERISA.

8.2 POWERS, DUTIES, PROCEDURES. The Plan Administrator shall have such powers and duties, may adopt such rules and tables, may act in accordance with such procedures, may appoint such officers or agents, may delegate such powers and duties, may receive such reimbursements and compensation, and shall follow such claims and appeal procedures with respect to the Plan as the Plan Administrator may establish.

8.3 INFORMATION. To enable the Plan Administrator to perform its functions, the Employer shall supply full and timely information to the Plan Administrator on all matters relating to the compensation of Participants, their employment, retirement, death, termination of employment, and such other pertinent facts as the Plan Administrator may require.

8.4 INDEMNIFICATION OF PLAN ADMINISTRATOR. The Employer agrees to indemnify and to defend to the fullest extent permitted by law any director, officer or employee who serves as Plan Administrator (including any such individual who formerly served as Plan Administrator) against all liabilities, damages, costs and expenses (including reasonable attorneys' fees and amounts paid in settlement of any claims approved by the Employer in writing in advance) occasioned by any act or omission to act in connection with the Plan, if such act or omission is in good faith.

ARTICLE 9
AMENDMENT AND TERMINATION

9.1 AUTHORITY TO AMEND AND TERMINATE. Subject to Section 9.2, the Plan Committee shall have the right to amend or terminate the Plan at any time. If the Plan is terminated and a trust is established (as described in Section 10.1), the Company may (a) elect to continue to maintain the trust to pay benefits hereunder as they become due as if the Plan had not terminated, or (b) direct the trustee to pay promptly to Participants (or their Beneficiaries) the balance of their Accounts.

9.2 EXISTING RIGHTS. No amendment or termination of the Plan shall adversely affect the rights of any Participant with respect to amounts that have been credited to his or her Account prior to the later of the date such amendment or termination is adopted or effective.

ARTICLE 10
MISCELLANEOUS

10.1 NO FUNDING. The Company intends that the Plan constitute an "unfunded" plan for tax purposes and for purposes of Title I of ERISA; provided that the Plan Administrator may authorize the creation of trusts and deposit therein cash or other property, or make other arrangements to meet the Company's obligations under the Plan, and further provided that such a trust shall be established upon a Change in Control, if none has previously been established, and the Company shall make a contribution to such trust effective as of the date of the Change in Control in an amount equal to the sum of the value of all Participant Accounts (including deemed investment gains) under the Plan as of such date and all contributions made to the Trust as of the date of the Change in Control shall thereafter be irrevocable until all Accounts under the Plan have been paid in full. Such trusts or other arrangements shall be consistent with the unfunded status of the Plan, unless the Plan Administrator otherwise determines with the consent of each Participant. In the event that such a trust or other arrangement is established, any Matching Allocations under the Plan may be made in cash or in property (either in part or in whole), including common stock of the Company.

10.2 GENERAL CREDITOR STATUS. The Plan constitutes a mere promise by the Company to make payments in accordance with the terms of the Plan and Participants and Beneficiaries shall have the status of general unsecured creditors of the Company. Nothing in the Plan will be construed to give any employee or any other person rights to any specific assets of the Company or of any other person.

10.3 NON-ASSIGNABILITY. None of the benefits, payments, proceeds or claims of any Participant or Beneficiary shall be subject to any claim of any creditor of any Participant or Beneficiary and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor of such Participant or Beneficiary, nor shall any Participant or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds that he or she may expect to receive, contingently or otherwise under the Plan.

10.4 LIMITATION OF PARTICIPANT'S RIGHTS. Nothing contained in the Plan shall confer upon any person a right to be employed or to continue in the employ of an Employer, or to interfere, in any way, with an Employer's right to terminate the employment of a Participant in the Plan at any time, with or without cause.

10.5 PARTICIPANTS BOUND. Any action with respect to the Plan taken by the Plan Administrator or a trustee (if any), or any action authorized by or taken at the direction of the Plan Administrator or a trustee (if any), shall be conclusive upon all Participants and Beneficiaries entitled to benefits under the Plan.

10.6 SATISFACTION OF CLAIMS; UNCLAIMED BENEFITS. Any payment to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims under the Plan against the Employer, the Plan Administrator and a trustee (if any) under the Plan, and the Plan Administrator may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect. If any Participant or Beneficiary is determined by the Plan Administrator to be incompetent by reason of physical or mental disability (including minority) to give a valid receipt and release, the Plan Administrator may cause the payment or payments becoming due to such person to be made to another person for his or her benefit without responsibility on the part of the Plan Administrator, the Employer or a trustee (if any) to follow the application of such funds. In the case of a benefit payable on behalf of a Participant, if the Plan Administrator is unable to locate the Participant or beneficiary to whom such benefit is payable, upon the Plan Administrator's determination thereof, such benefit shall be forfeited to the Company. Notwithstanding the foregoing, if subsequent to any such forfeiture the Participant or beneficiary to whom such benefit is payable makes a valid claim for such benefit, such forfeited benefit shall be restored to the Plan by the Company.

GOVERNING LAW AND SEVERABILITY. The Plan shall be construed, administered, and governed in all respects under and by the laws of the State of Texas. If any provision is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

10.7 NOT CONTRACT OF EMPLOYMENT. The adoption and maintenance of the Plan shall not be deemed to be a contract between the Company and any person or to be consideration for the employment of any person. Nothing herein contained shall be deemed to give any person the right to be retained in the employ of the Company or to restrict the right of the Company to discharge any person at any time nor shall the Plan be deemed to give the Company the right to require any person to remain in the employ of the Company or to restrict any person's right to terminate his employment at any time.

10.8 SEVERABILITY. If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

10.9 HEADINGS. Headings and subheading in the Plan are inserted for convenience only and are not to be considered in the construction of the provisions hereof.

* * *

IN WITNESS WHEREOF, the undersigned officer of Waste Management, Inc. has executed this document to certify its adoption by Waste Management, Inc. as of the effective date provided herein.

WASTE MANAGEMENT, INC.

By: _____

Its: _____

REVOLVING CREDIT AGREEMENT

DATED AS OF JUNE 27, 2002

by and among

WASTE MANAGEMENT, INC.
(the "Borrower")

and

WASTE MANAGEMENT HOLDINGS, INC.
(the "Guarantor")

and

FLEET NATIONAL BANK ("Fleet")
BANK OF AMERICA, N.A. ("BOA")
JPMORGAN CHASE BANK ("JPMCB")
DEUTSCHE BANK AG NEW YORK BRANCH ("Deutsche")
CITIBANK, N.A. ("Citibank")

AND THE OTHER FINANCIAL INSTITUTIONS WHICH BECOME
A PARTY TO THIS AGREEMENT
(collectively, the "Banks")

and

FLEET, AS ADMINISTRATIVE AGENT (the "Administrative Agent")

and

DEUTSCHE BANK SECURITIES INC. AND CITIBANK, AS CO-DOCUMENTATION AGENTS
(the "Co-Documentation Agents")

and

JPMCB AND BOA, AS CO-SYNDICATION AGENTS (the "Co-Syndication Agents")

and

J.P. MORGAN SECURITIES INC. AND BANC OF AMERICA SECURITIES LLC
AS JOINT LEAD ARRANGERS AND JOINT BOOK MANAGERS
(the "Joint Lead Arrangers and Joint Book Managers")

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REVOLVING CREDIT AGREEMENT

This REVOLVING CREDIT AGREEMENT is made as of the 27th day of June, 2002, by and among WASTE MANAGEMENT, INC., a Delaware corporation having its chief executive office at 1001 Fannin Street, Suite 4000, Houston, Texas 77002 (the "Borrower"), WASTE MANAGEMENT HOLDINGS, INC., a wholly-owned Subsidiary of the Borrower (the "Guarantor"), FLEET NATIONAL BANK, a national banking association having a place of business at 100 Federal Street, Boston, MA 02110 ("Fleet"), BANK OF AMERICA, N.A., a national banking association having a place of business at 231 South LaSalle Street Chicago, IL 60697 ("BOA"), JPMORGAN CHASE BANK, a national banking association having a place of business at 227 W. Monroe Street, Chicago, IL 60606 ("JPMCB"), DEUTSCHE BANK AG NEW YORK BRANCH, the duly licensed New York branch of a German corporation having its principal place of business at 31 West 52nd Street, New York, NY 10019 ("Deutsche"), CITIBANK, N.A., a national banking association having a place of business at 399 Park Avenue, New York, New York 10043 ("Citibank"), and each of the other financial institutions party hereto (collectively, the "Banks"), and Fleet as administrative agent (the "Administrative Agent"), J.P. Morgan Securities Inc. and Banc of America Securities LLC as joint lead arrangers and joint book managers (the "Joint Lead Arrangers and Joint Book Managers"), JPMCB and BOA as co-syndication agents (the "Co-Syndication Agents", and together with the Administrative Agent and the Joint Lead Arrangers and Joint Book Managers, the "Agents"), and Deutsche Bank Securities Inc. and Citibank, as co-documentation agents (the "Co-Documentation Agents").

WHEREAS, the Borrower has requested certain financing arrangements and the Banks have agreed to provide such financing arrangements on the terms set forth herein;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth herein below, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties, this Agreement will take effect on the Effective Date, on the following terms:

SECTION 1. DEFINITIONS AND RULES OF INTERPRETATION.

SECTION 1.1. DEFINITIONS. The following terms shall have the meanings set forth in this Section 1 or elsewhere in the provisions of this Agreement referred to below:

Absolute Competitive Bid Loan(s). See Section 4.3(a).

Accountants. See Section 7.4(a).

Administrative Agent. See Preamble.

Affected Bank. See Section 5.12.

Agents. See Preamble.

Agreement. This Revolving Credit Agreement, including the Schedules and Exhibits hereto, as from time to time amended and supplemented in accordance with the terms hereof.

Applicable Base Rate. The applicable rate per annum of interest on the Base Rate Loans as set forth in the Pricing Table.

Applicable Eurodollar Rate. The applicable rate per annum of interest on the Eurodollar Loans shall be as set forth in the Pricing Table.

Applicable Facility Rate. The applicable rate per annum with respect to the Facility Fee shall be as set forth in the Pricing Table.

Applicable L/C Rate. The applicable rate per annum on the Maximum Drawing Amount shall be as set forth in the Pricing Table.

Applicable Requirements. See Section 7.10.

Applicable Swing Line Rate. The annual rate of interest agreed upon from time to time by the Administrative Agent and the Borrower with respect to Swing Line Loans.

Assignment and Acceptance. See Section 20.

Balance Sheet Date. December 31, 2001.

Banks. See Preamble.

Base Rate. The higher of (a) the variable annual rate of interest so designated from time to time by the Administrative Agent at its Loan Office as its "prime rate," such rate being a reference rate and not necessarily representing the lowest or best rate being charged to any customer by the Administrative Agent, or (b) one-half of one percent (1/2%) above the Overnight Federal Funds Effective Rate, as published by the Board of Governors of the Federal Reserve System, as in effect from time to time. Changes in the Base Rate resulting from any changes in the Administrative Agent's "prime rate" shall take place immediately without notice or demand of any kind on the effective day of such change.

Base Rate Loans. Syndicated Loans bearing interest calculated by reference to the Base Rate.

BOA. See Preamble.

Borrower. See Preamble.

Borrowing. Means (a) Syndicated Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, (b) a Competitive Bid Loan or group of Competitive Bids Loans of the same Type made on the same date and as to which a single Interest Period is in effect or (c) Swing Line Loans.

Business Day. Any day, other than a Saturday, Sunday or any day on which banking institutions in Boston, Massachusetts or New York, New York are authorized by law to close, and, when used in connection with a Eurodollar Loan, a Eurodollar Business Day.

Capitalized Leases or Capital Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with GAAP.

CERCLA. See Section 6.15(a).

Certified or certified. With respect to the financial statements of any Person, such statements as audited by a firm of independent auditors, whose report expresses the opinion, without qualification, that such financial statements present fairly, in all material respects, the financial position of such Person.

CFO or the CAO. See Section 7.4(b).

Class. When used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Syndicated Loans, Competitive Bid Loans or Swing Line Loans.

Code. The Internal Revenue Code of 1986, as amended and in effect from time to time.

Co-Documentation Agents. See Preamble.

Commitment. With respect to each Bank, such Bank's commitment to make Syndicated Loans to, and to participate in the issuance, extension and renewal of Letters of Credit for the account of, the Borrower, determined by multiplying such Bank's Commitment Percentage by the Total Commitment.

Commitment Percentage. With respect to each Bank, the percentage initially set forth next to such Bank's name on Schedule 1 hereto, as the same may be adjusted in accordance with Section 20.

Competitive Bid Loan(s). A Borrowing hereunder consisting of one or more loans made by any of the participating Banks whose offer to make a Competitive Bid Loan as part of such Borrowing has been accepted by the Borrower under the auction bidding procedure described in Section 4 hereof.

Competitive Bid Loan Accounts. See Section 4.2(a).

Competitive Bid Margin. See Section 4.5(b)(iv).

Competitive Bid Quote. An offer by a Bank to make a Competitive Bid Loan in accordance with Section 4.5 hereof.

Competitive Bid Quote Request. See Section 4.3.

Competitive Bid Rate. See Section 4.5(b)(v).

Compliance Certificate. See Section 7.4(c).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries consolidated in accordance with GAAP.

Consolidated Earnings Before Interest and Taxes, or EBIT. For any period, the Consolidated Net Income (or Deficit) of the Borrower and its Subsidiaries on a consolidated basis plus, without duplication, the sum of (1) interest expense, (2) income taxes, (3) non-cash extraordinary non-recurring writedowns or write-offs of assets, including non-cash losses on the sale of assets outside the ordinary course of business, (4) non-recurring extraordinary charges for settlement or judgment costs with respect to the shareholder lawsuits and actions brought against the Borrower or the Guarantor related to, arising or resulting from, the restatements of financial statements or results, lowered expected earnings announcements occurring in 1998 and 1999, alleged misrepresentations, misstatements or omissions contained in, or the adequacy of, any disclosure documents filed with the Securities and Exchange Commission in 1998 and 1999, as further described in the Disclosure Documents (collectively, the "Shareholder Suits"), and (5) EBIT of the businesses acquired by the Borrower or any of its Subsidiaries (through asset purchases or otherwise) (each an "Acquired Business") or the Subsidiaries acquired or formed since the beginning of such period (each a "New Subsidiary") provided that (i) the financial statements of such Acquired Businesses or New Subsidiaries have been audited for the most recent fiscal year ended of such Acquired Businesses or New Subsidiaries, or (ii) the Administrative Agent consents to such inclusion after being furnished with other acceptable financial statements, and, in each case, a Compliance Certificate and other reasonably appropriate documentation, in form and substance reasonably satisfactory to the Administrative Agent, with respect to the historical operating results and balance sheet of such Acquired Businesses or New Subsidiaries (which information to the knowledge of the officer executing such certificate is correct in all material respects) are provided to the Administrative Agent, to the extent that each of items (1) through (4) was deducted in determining Consolidated Net Income (or Deficit) in the relevant period, minus non-cash extraordinary gains on the sale of assets outside the ordinary course of business to the extent included in Consolidated Net Income (or Deficit).

Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization or EBITDA. For any period, EBIT plus (a) depreciation expense, and (b) amortization expense to the extent the same would be included in the calculation of Consolidated Net Income (or Deficit) for such period, determined in accordance with GAAP.

Consolidated Net Income (or Deficit). The consolidated net income (or deficit) of the Borrower and its Subsidiaries on a consolidated basis, after deduction of all expenses, taxes, and other proper charges, determined in accordance with GAAP.

Consolidated Net Worth. The sum of the par value of the capital stock (excluding treasury stock), capital in excess of par or stated value of shares of capital stock, retained earnings (minus accumulated deficit) and any other account which, in accordance with GAAP, constitute stockholders' equity, of the Borrower and its Subsidiaries determined

on a consolidated basis, excluding the effect of any foreign currency transactions computed pursuant to Financial Accounting Standards Board Statement No. 52, as amended, supplemented or modified from time to time, or otherwise in accordance with GAAP.

Consolidated Tangible Assets. Consolidated Total Assets less the sum of:

(a) the total book value of all assets of the Borrower and its Subsidiaries properly classified as intangible assets under generally accepted accounting principles, including such items as goodwill, the purchase price of acquired assets in excess of the fair market value thereof, trademarks, trade names, service marks, customer lists, brand names, copyrights, patents and licenses, and rights with respect to the foregoing; plus

(b) all amounts representing any write-up in the book value of any assets of the Borrower or its Subsidiaries resulting from a revaluation thereof subsequent to the Balance Sheet Date.

Consolidated Total Assets. All assets of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

Consolidated Total Interest Expense. For any period, the aggregate amount of interest expense required by GAAP to be paid or accrued during such period on all Indebtedness of the Borrower and its Subsidiaries outstanding during all or any part of such period, including capitalized interest expense for such period.

Co-Syndication Agents. See Preamble.

Defaulting Bank. See Section 5.12.

Defaults. See Section 12.1.

Deutsche. See Preamble.

Disclosure Documents. The Borrower's financial statements referred to in Section 6.4 and filings made by the Borrower or the Guarantor with the Securities and Exchange Commission that were publicly available prior to the Effective Date which were provided to the Banks.

Disposal. See "Release".

Distribution. The declaration or payment of any dividend or other return on equity on or in respect of any shares of any class of capital stock, any partnership interests or any membership interests of any Person (other than dividends or other such returns payable solely in shares of capital stock, partnership interests or membership units of such Person, as the case may be); the purchase, redemption, or other retirement of any shares of any class of capital stock, partnership interests or membership units of such Person, directly or indirectly through a Subsidiary or otherwise; the return of equity capital by any Person to its shareholders, partners or members as such; or any other distribution on or in respect of any shares of any class of capital stock, partnership interest or membership unit of such Person.

Dollars or US\$ or \$ or U.S. Dollars. Dollars in lawful currency of the United States of America.

Drawdown Date. The date on which any Loan is made or is to be made, or any amount is paid by an Issuing Bank under a Letter of Credit.

EBIT. See definition of Consolidated Earnings Before Interest and Taxes.

EBITDA. See definition of Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization.

Effective Date. The date on which the conditions precedent set forth in Section 10.1 hereof are satisfied.

Employee Benefit Plan. Any employee benefit plan within the meaning of Section 3(3) of ERISA maintained or contributed to by the Borrower, any of its Subsidiaries, or any ERISA Affiliate, other than a Multiemployer Plan.

Environmental Laws. See Section 6.15(a).

EPA. See Section 6.15(b).

ERISA. The Employee Retirement Income Security Act of 1974, as amended and in effect from time to time.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower or any of its Subsidiaries under Section 414 of the Code.

ERISA Reportable Event. A reportable event within the meaning of Section 4043 of ERISA and the regulations promulgated thereunder with respect to a Guaranteed Pension Plan as to which the requirement of notice has not been waived.

Eurocurrency Reserve Rate. For any day with respect to a Eurodollar Loan, the maximum rate (expressed as a decimal) at which the Administrative Agent would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Eurodollar Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other eurodollar interbank market as may be selected by the Administrative Agent in its sole discretion acting in good faith.

Eurodollar Competitive Bid Loan(s). See Section 4.3(a).

Eurodollar Lending Office. Initially, the office of each Bank set forth in the administrative materials provided to the Administrative Agent; thereafter, upon notice to

the Administrative Agent, such other office of such Bank that shall be making or maintaining Eurodollar Loans.

Eurodollar Loans. Syndicated Loans bearing interest calculated by reference to the Eurodollar Rate.

Eurodollar Rate. For any Interest Period with respect to a Eurodollar Loan, (a) the rate of interest equal to the rate determined by the Administrative Agent at which Dollar deposits for such Interest Period are offered based on information presented on Page 3750 of the Dow Jones Market Service (formerly known as the Telerate Service) (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time) as of 11:00 a.m. (London time) two (2) Eurodollar Business Days prior to the first day of such Interest Period, or (b) if such rate is not shown at such place, the rate of interest equal to (i) the rate per annum at which the Administrative Agent's Eurodollar Lending Office is offered Dollar deposits at approximately 10:00 a.m. (New York time) two (2) Eurodollar Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar operations of such Eurodollar Lending Office are customarily conducted, for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of the Eurodollar Loan of the Administrative Agent to which such Interest Period applies, divided by (ii) a number equal to 1.00 minus the Eurocurrency Reserve Rate, if applicable.

Events of Default. See Section 12.1.

Facility Fee. See Section 2.2.

Financial Affiliate. A subsidiary of the bank holding company controlling any Bank, which subsidiary is engaging in any of the activities permitted by Section 4(e) of the Bank Holding Company Act of 1956 (12 U.S.C. Section 1843).

Five Year Revolving Credit Facility. That certain Revolving Credit Agreement dated as of June 29, 2001 by and among the Borrower, the Guarantor, BOA, JPMCB (f/k/a The Chase Manhattan Bank), Deutsche and the other banks party thereto, and Fleet as administrative agent thereunder, J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint lead arrangers and joint book managers thereunder, BOA and JPMCB as co-syndication agents thereunder and Deutsche and Citibank, as co-documentation agents thereunder, as amended from time to time.

Fleet. See Preamble.

generally accepted accounting principles or GAAP. (i) When used in Section 9, whether directly or indirectly through reference to a capitalized term used therein, means (A) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (B) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (ii) when used in general, other than as provided

above, means principles that are (A) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time, and (B) consistently applied with past financial statements of the Borrower adopting the same principles, provided that in each case referred to in this definition of "generally accepted accounting principles" a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Obligations. See Section 28.1.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of Section 3(2) of ERISA maintained or contributed to by the Borrower, its Subsidiaries or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantor. See Preamble.

Guaranty. Any obligation, contingent or otherwise, of a Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guaranty shall not include endorsements for collection or deposit in the ordinary course of business.

Hazardous Substances. See Section 6.15(b).

Indebtedness. Collectively, without duplication, whether classified as Indebtedness, an Investment or otherwise on the obligor's balance sheet, (a) all indebtedness for borrowed money, (b) all obligations for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business which either (i) are not overdue by more than ninety (90) days, or (ii) are being disputed in good faith and for which adequate reserves have been established in accordance with GAAP), (c) all obligations evidenced by notes, bonds, debentures or other similar debt instruments, (d) all obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations, liabilities and indebtedness under Capitalized Leases, (f) all obligations, liabilities or indebtedness (contingent or otherwise) under surety, performance bonds, or any other bonding arrangement, (g) Guaranties with respect to all Indebtedness of others referred to in clauses (a) through (f)

above, and (h) all Indebtedness of others referred to in clauses (a) through (f) above secured or supported by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured or supported by) any Lien on the property or assets of the Borrower or any Subsidiary, even though the owner of the property has not assumed or become liable, contractually or otherwise, for the payment of such Indebtedness; provided that if a Permitted Receivables Transaction is outstanding and is accounted for as a sale of accounts receivable under generally accepted accounting principles, Indebtedness shall also include the additional Indebtedness, determined on a consolidated basis, which would have been outstanding had such Permitted Receivables Transaction been accounted for as a borrowing.

Interest Period. With respect to each Loan (a) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in accordance with this Agreement (i) for any Base Rate Loan or Swing Line Loan, the first day of the month; (ii) for any Eurodollar Loan, 1, 2, 3, or 6 months; (iii) for any Absolute Competitive Bid Loan, from 7 through 180 days; and (iv) for any Eurodollar Competitive Bid Loan, 1, 2, 3, 4, 5, or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in accordance with this Agreement or if such period has no numerically corresponding day, on the last Business Day of such period; provided that any Interest Period which would otherwise end on a day which is not a Business Day shall be deemed to end on the next succeeding Business Day; provided further that for any Interest Period for any Eurodollar Loan or Eurodollar Competitive Bid Loan, if such next succeeding Business Day falls in the next succeeding calendar month, such Interest Period shall be deemed to end on the next preceding Business Day; and provided further that no Interest Period shall extend beyond the Maturity Date.

Interim Balance Sheet Date. March 31, 2002.

Investments. All expenditures made by a Person and all liabilities incurred (contingently or otherwise) by a Person for the acquisition of stock (other than the stock of Subsidiaries), or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any Guaranties or other commitments as described under Indebtedness, or obligations of, any other Person, including without limitation, the funding of any captive insurance company (other than loans, advances, capital contributions or transfers of property to any Subsidiaries or Guaranties with respect to Indebtedness of any Subsidiary, limited to such Person's pro rata equity interest in such Subsidiary). In determining the aggregate amount of Investments outstanding at any particular time: (a) the amount of any Investment represented by a Guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (b) may be deducted when paid; and (e)

there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Issuance Fee. See Section 3.6.

Issuing Banks. The Bank(s) issuing Letters of Credit, which shall be (a) JPMCB, BOA, Fleet, Bank One, N.A., BNP Paribas, Wachovia Bank, National Association, Suntrust Bank, and Deutsche Bank AG New York Branch and (b) such other Banks as agreed to by the Borrower and the Administrative Agent.

Joint Lead Arrangers and Joint Book Managers. See Preamble.

JPMCB. See Preamble.

Bank Affiliate. (a) with respect to any Bank, (i) a Person that directly, or indirectly through one or more intermediaries, possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of such Bank, whether through the ability to exercise voting power, by contract or otherwise or is controlled by or is under common control with such Bank (an "Affiliate") of such Bank or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Bank or an Affiliate of such Bank and (b) with respect to any Bank that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

Letter of Credit Applications. Letter of credit applications in the form attached hereto as Exhibit I, unless otherwise agreed upon by the Borrower and the Issuing Bank from time to time which are entered into pursuant to Section 3 hereof, as such Letter of Credit Applications are amended, varied or supplemented from time to time; provided, however, in the event of any conflict or inconsistency between the terms of any Letter of Credit Application and this Agreement, the terms of this Agreement shall control.

Letter of Credit Fee. See Section 3.6.

Letter of Credit Participation. See Section 3.1(b).

Letter of Credit Request. See Section 11.5.

Letters of Credit. Letters of credit issued or to be issued by the Issuing Banks under Section 3 hereof for the account of the Borrower.

Lien. With respect to any asset, (a) any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, encumbrance, charge, security interest, assignment, deposit arrangement or other restriction in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

Loan Documents. This Agreement, the Letter of Credit Applications, the Letters of Credit and any documents, instruments or agreements executed in connection with any of the foregoing, each as amended, modified, supplemented, or replaced from time to time.

Loan Office. The Administrative Agent's office located in Boston, Massachusetts, or at such other location as the Administrative Agent may designate from time to time.

Loans. Collectively, the Syndicated Loans, the Swing Line Loans and the Competitive Bid Loans.

Majority Banks. The Banks with greater than fifty percent (50%) of the Total Commitment; provided that in the event that the Total Commitment has been terminated, the Majority Banks shall be the Banks holding greater than fifty percent (50%) of the aggregate outstanding principal amount of the Obligations on such date.

Material Adverse Effect. A material adverse effect on (a) the business, assets, operations, or financial condition of the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Borrower or the Guarantor to perform any of its obligations under any Loan Document to which it is a party, or (c) the rights of, or remedies or benefits available to, the Administrative Agent or any Bank under any Loan Document.

Material Subsidiary. Any Subsidiary which, at the time such determination is made, has assets, revenues, or liabilities of at least \$20,000,000 or more.

Maturity Date. June 27, 2005.

Maximum Drawing Amount. The maximum aggregate amount from time to time that the beneficiaries may draw under outstanding Letters of Credit.

Moody's. Moody's Investors Service, Inc.

Multiemployer Plan. Any multiemployer plan within the meaning of Section 3(37) of ERISA maintained or contributed to by the Borrower, any of its Subsidiaries, or any ERISA Affiliate.

New Lending Office. See Section 5.1(d).

Non-U.S. Bank. See Section 5.1(c).

Notes. Notes issued according to Section 2.4(e).

Obligations. All indebtedness, obligations and liabilities of the Borrower to any of the Banks and the Administrative Agent arising or incurred under this Agreement or any of the other Loan Documents or in respect of any of the Loans made or Reimbursement Obligations incurred or the Letters of Credit, or any other instrument at any time evidencing any thereof, individually or collectively, existing on the date of this Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise.

Overnight Federal Funds Effective Rate. The overnight federal funds effective rate as published by the Board of Governors of the Federal Reserve System, as in effect from time to time, or if such rate is not published, the average of the quotations at approximately 11:00 a.m. New York time for the day of such transaction(s), received by the Administrative Agent from three Federal Funds brokers of recognized standing selected by the Administrative Agent.

PBGC. The Pension Benefit Guaranty Corporation created by Section 4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Liens. Any of the following Liens:

(a) Liens for taxes not yet due or that are being contested in compliance with Section 7.8;

(b) carriers', warehousemen's, maritime, mechanics, materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are being contested in good faith by appropriate proceedings and for which adequate reserves with respect thereto have been set aside as required by GAAP;

(c) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(d) Liens to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capital Leases), statutory obligations, surety and appeal bonds, suretyship, performance and landfill closure bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) zoning restrictions, easements, rights-of-way, restrictions on use of property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(f) the Liens on Schedule 1.1 hereto securing the obligations listed on such Schedule and any replacement Lien securing any renewal, extension or refunding of such obligations if the amount secured by such renewal, extension or refunding Lien shall not exceed the amount of the outstanding obligations secured by the Lien being replaced at the time of such renewal, extension or refunding (plus transaction costs, including premiums and fees, related to such renewal, extension or refunding) and if such replacement Lien shall be limited to the substantially the same property that secured the Lien so replaced;

(g) legal or equitable encumbrances deemed to exist by reason of the existence of any litigation or other legal proceeding or arising out of a judgment or award with respect to which an appeal is being prosecuted in good faith by appropriate action and with respect to which adequate reserves are being maintained and, in the case of judgment liens, execution thereon is stayed;

(h) rights reserved or vested in any municipality or governmental, statutory or public authority to control or regulate any property of the Borrower or any Subsidiary, or to use such property in a manner that does not materially impair the use of such property for the purposes for which it is held by the Borrower or such Subsidiary;

(i) any obligations or duties affecting the property of the Borrower or any of its Subsidiaries to any municipality, governmental, statutory or public authority with respect to any franchise, grant, license or permit;

(j) Liens filed in connection with sales of receivables by any of the Subsidiaries (other than the Guarantor) to a wholly-owned special purpose financing Subsidiary for purposes of perfecting such sales, provided that no third party has any rights with respect to such Liens or any assets subject thereto;

(k) any interest or title of a lessor under any sale lease-back transaction entered into by the Borrower or any Subsidiary conveying only the assets so leased back to the extent the related Indebtedness is permitted under Section 8.1 hereof;

(l) Liens created or deemed to be created under Permitted Receivables Transactions at any time provided such Liens do not extend to any property or assets other than the trade receivables sold pursuant to such Permitted Receivables Transactions, interests in the goods or products (including returned goods and products), if any, relating to the sales giving rise to such trade receivables; any security interests or other Liens and property subject thereto (other than on any leases or related lease payment rights or receivables between the Borrower and any of its Subsidiaries, as lessors or sublessors) from time to time purporting to secure the payment by the obligors of such trade receivables (together with any financing statements signed by such obligors describing the collateral securing such trade receivables) pursuant to such Permitted Receivables Transactions; and

(m) Liens securing other Indebtedness permitted under Sections 8.1(d) and (e);

provided that the aggregate amount of all Indebtedness and liabilities secured by all Liens permitted in subsections (k), (l) and (m) shall not exceed 15% of Consolidated Tangible Assets at any time.

Permitted Receivables Transaction. Any sale or sales of, and/or securitization of, any accounts receivable of the Borrower and/or any of its Subsidiaries (the "Receivables") pursuant to which (a) the Borrower and its Subsidiaries realize aggregate net proceeds of not more than \$750,000,000 at any one time outstanding, including, without limitation, any revolving purchase(s) of Receivables where the maximum aggregate uncollected purchase price (exclusive of any deferred purchase price) for such Receivables at any time outstanding does not exceed \$750,000,000, and (b) which Receivables shall not be discounted more than 25%.

Person. Any individual, corporation, partnership, joint venture, limited liability company, trust, unincorporated association, business, or other legal entity, and any government or any governmental agency or political subdivision thereof.

Pricing Table:

APPLICABLE
SENIOR
PUBLIC
APPLICABLE
APPLICABLE
APPLICABLE
EURODOLLAR
LEVEL DEBT
RATING
FACILITY
RATE L/C
RATE BASE
RATE RATE

----- 1
Greater
than or
equal to
0.1000%

0.6500%
Base Rate
per
Eurodollar
Rate plus
BBB+ by
Standard &
Poor's or
per annum
per annum
annum

0.6500%
greater
than or
equal to
per annum
Baa1 by
Moody's 2
BBB by
Standard &
Poor's or
0.1250%

0.8750%
Base Rate
per
Eurodollar
Rate plus
Baa2 by
Moody's
per annum
per annum
annum

0.8750%
per annum
3 BBB- by
Standard &
Poor's or
0.2000%

0.9250%
Base Rate
per
Eurodollar
Rate plus
Baa3 by
Moody's
per annum
per annum
annum
0.9250%
per annum
4 BB+ by
Standard &

Poor's or
0.2750%
1.2250%
Base Rate
per
Eurodollar
Rate plus
Ba1 by
Moody's
per annum
per annum
annum
1.2250%
per annum
5 Less
than or
equal to
BB by
0.3250%
1.4250%
Base Rate
Eurodollar
Rate plus
Standard &
Poor's or
less per
annum per
annum plus
0.2000%
1.4250%
than or
equal to
Ba2 by per
annum per
annum
Moody's

The applicable rates charged for any day shall be determined by the higher Senior Public Debt Rating in effect as of that day, provided that if the higher Senior Public Debt Rating is more than one level higher than the lower Senior Public Debt Rating, the applicable rate shall be set at one level above the lower Senior Public Debt Rating.

RCRA. See Section 6.15(a).

Real Property. All real property heretofore, now, or hereafter owned, operated, or leased by the Borrower or any of its Subsidiaries.

Reimbursement Obligation. The Borrower's obligation to reimburse the applicable Issuing Bank and the Banks on account of any drawing under any Letter of Credit, all as provided in Section 3.2.

Release. Shall have the meaning specified in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Sections 9601 et seq. ("CERCLA") and the term "Disposal" (or "Disposed") shall have the meaning specified in the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Sections 6901 et seq. ("RCRA") and regulations promulgated thereunder; provided, that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined

thereby, such broader meaning shall apply as of the effective date of such amendment and provided further, to the extent that the laws of Canada or a state, province, territory or other political subdivision thereof wherein the property lies establish a meaning for "Release" or "Disposal" which is broader than specified in either CERCLA, or RCRA, such broader meaning shall apply to the Borrower's or any of its Subsidiaries' activities in that state, province, territory or political subdivision.

Replacement Bank. See Section 5.12.

Replacement Notice. See Section 5.12.

Senior Public Debt Rating. The ratings of the Borrower's public unsecured long-term senior debt, without third party credit enhancement, issued by Moody's and Standard & Poor's.

Shareholder Suits. See the definition of "Consolidated Earnings Before Interest and Taxes, or EBIT."

Standard & Poor's. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Subsidiary. Any corporation, association, trust, or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority of the outstanding capital stock or other interest entitled to vote generally and whose financial results are required to be consolidated with the financial results of the designated parent in accordance with GAAP.

Swap Contracts. All obligations in respect of interest rate, currency or commodity exchange, forward, swap, or futures contracts or similar transactions or arrangements entered into to protect or hedge the Borrower and its Subsidiaries against interest rate, exchange rate or commodity price risks or exposure, or to lower or diversify their funding costs.

Swap Obligations. The maximum amount of any termination or loss payment required to be paid by the Borrower or any Subsidiary with respect to any Swap Contract if such Swap Contract were, at the time of determination, to be terminated by reason of any event of default or early termination event thereunder, whether or not such event of default or early termination event has in fact occurred, provided that, solely with respect to Swap Contracts which are either (a) entered into between the Borrower or any of its Subsidiaries with an investment grade company, or (b) entered into between the Borrower or any of its Subsidiaries with third parties whose obligations thereunder are secured, such maximum amount of termination or loss payment shall be net of any termination or loss payment required to be paid to the Borrower or any Subsidiary by such counterparty (other than the Borrower or another Subsidiary) with respect to any Swap Contract if such Swap Contract were, at the time of determination, to be terminated by reason of any event of default or early termination event thereunder, whether or not such event of default or early termination event has in fact occurred.

Swing Line Loans. See Section 2.11(a).

Swing Line Settlement. The making or receiving of payments, in immediately available funds, by the Banks to or from the Administrative Agent in accordance with Section 2.11 hereof to the extent necessary to cause each Bank's actual share of the outstanding amount of the Syndicated Loans to be equal to such Bank's Commitment Percentage of the outstanding amount of such Syndicated Loans, in any case when, prior to such action, the actual share is not so equal.

Swing Line Settlement Amount. See Section 2.11(b).

Swing Line Settlement Date. See Section 2.11(b).

Swing Line Settling Bank. See Section 2.11(b).

Syndicated Loan Request. See Section 2.6(a).

Syndicated Loans. A Borrowing hereunder consisting of one or more loans made by the Banks to the Borrower under the procedure described in Section 2.1(a) and Section 2.11 hereof.

Terminated Plans. The Waste Management, Inc. Pension Plan and The Waste Management of Alameda County, Inc. Retirement Plan.

Total Commitment. Initially \$620,000,000, as such amount may be increased or reduced in accordance with the terms hereof, or, if such Total Commitment has been terminated pursuant to Section 2.3.1 or Section 12.2 hereof, zero.

Total Debt. The sum, without duplication, of all (1) Indebtedness of the Borrower and its Subsidiaries on a consolidated basis under subsections (a) through (h) of the definition of "Indebtedness" (provided, however, that Indebtedness (A) under subsection (f) of the definition of "Indebtedness" shall be included in such calculation only to the extent that a surety has been called upon to make payment on a bond, and (B) with respect to Permitted Receivables Transactions shall not be included in such calculation), plus (2) Swap Obligations, plus (3) non-contingent reimbursement obligations of the Borrower and its Subsidiaries with respect to drawings under any letters of credit.

Type. When used in reference to any Loan, refers to whether the rate of interest on such Loan is determined by reference to the Eurodollar Rate, the Base Rate or, in the case of a Competitive Bid Loan, whether it is a Eurodollar Competitive Bid Loan or Absolute Competitive Bid Loan.

SECTION 1.2. RULES OF INTERPRETATION.

(a) Unless otherwise noted, a reference to any document or agreement (including this Agreement) shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms capitalized but not otherwise defined herein have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by generally accepted accounting principles, which terms are defined in the Uniform Commercial Code as in effect in the State of New York, have the meanings assigned to them therein.

(h) Reference to a particular "Section " refers to that section of this Agreement unless otherwise indicated.

(i) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Agreement as a whole and not to any particular section or subdivision of this Agreement.

SECTION 1.3. CLASSIFICATION OF LOANS AND BORROWINGS.

For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Syndicated Loan") or by Type (e.g., a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Syndicated Loan").

SECTION 2. THE LOAN FACILITIES.

SECTION 2.1. COMMITMENT TO LEND.

(a) Subject to the terms and conditions set forth in this Agreement, each of the Banks severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time between the Effective Date and the Maturity Date, upon notice by the Borrower to the Administrative Agent given in accordance with this Section 2, its Commitment Percentage of the Syndicated Loans as are requested by the Borrower; provided that the sum of the outstanding principal amount of the Syndicated Loans (including the Swing Line Loans) and the Maximum Drawing Amount of outstanding Letters of Credit shall not exceed the Total Commitment minus the aggregate amount of Competitive Bid Loans outstanding at such time.

(b) On the date of each request for a Loan or Letter of Credit hereunder, the Borrower shall be deemed to have made a representation and warranty that the conditions set forth in Section 10 and Section 11, as the case may be, have been satisfied on the date of such request. Any unpaid Reimbursement Obligation shall be a Base Rate Loan, as set forth in Section 3.2(a).

SECTION 2.2. FACILITY FEE. The Borrower agrees to pay to the Administrative Agent for the account of the Banks a fee (the "Facility Fee") on the Total Commitment equal to the Applicable Facility Rate multiplied by the Total Commitment. The Facility Fee shall be payable for the period from and after the Effective Date quarterly in arrears on the first

day of each calendar quarter for the immediately preceding calendar quarter with the first such payment commencing on October 1, 2002 and with a final payment on the Maturity Date (or on the date of termination in full of the Total Commitment, if earlier). The Facility Fee shall be distributed pro rata among the Banks in accordance with each Bank's Commitment Percentage.

SECTION 2.3. REDUCTION AND INCREASE OF TOTAL COMMITMENT.

SECTION 2.3.1. REDUCTION OF TOTAL COMMITMENT.

(a) The Borrower shall have the right at any time and from time to time upon three (3) Business Days' prior written notice to the Administrative Agent to reduce by \$25,000,000 or a greater amount or terminate entirely, the Total Commitment, whereupon each Bank's Commitment shall be reduced pro rata in accordance with such Bank's Commitment Percentage of the amount specified in such notice or, as the case may be, terminated provided that at no time may (i) the Total Commitment be reduced to an amount less than the sum of (A) the Maximum Drawing Amount of all Letters of Credit, and (B) all Loans then outstanding.

(b) No reduction or termination of the Total Commitment once made may be revoked; the portion of the Total Commitment reduced or terminated may not be reinstated; and amounts in respect of such reduced or terminated portion may not be reborrowed.

(c) The Administrative Agent will notify the Banks promptly after receiving any notice delivered by the Borrower pursuant to this Section 2.3.1 and will distribute to each Bank a revised Schedule 1 to this Agreement.

SECTION 2.3.2. INCREASE OF TOTAL COMMITMENT. Unless a Default or Event of Default has occurred and is continuing, the Borrower may request, subject to the approval of the Administrative Agent, that the Total Commitment be increased, provided that the Total Commitment shall not, except with the consent of the Majority Banks, in any event exceed \$650,000,000 hereunder, provided, however, that (i) any Bank which is a party to this Agreement prior to such increase shall have the first option, and may elect, to fund its pro rata share of the increase, thereby increasing its Commitment hereunder, but no Bank shall have any obligation to do so, (ii) in the event that it becomes necessary to include a new Bank to provide additional funding under this Section 2.3.2, such new Bank must be reasonably acceptable to the Administrative Agent and the Borrower, and (iii) the Banks' Commitment Percentages shall be correspondingly adjusted, as necessary, to reflect any increase in the Total Commitment and Schedule 1 shall be amended to reflect such adjustments. Any such increase in the Total Commitment shall require, among other things, the satisfaction of such conditions precedent as the Administrative Agent may require, including, without limitation, the Administrative Agent's receipt of evidence of applicable corporate authorization and other corporate documentation from the Borrower and the legal opinion of counsel to the Borrower, each in form and substance satisfactory to the Administrative Agent and such Banks as are participating in such increase.

SECTION 2.4. REPAYMENT OF LOANS; EVIDENCE OF DEBT.

(a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the pro rata account of the Banks, the then unpaid principal amount of the Syndicated Loans on the Maturity Date, (ii) to the Administrative Agent for the account of the applicable Bank, the then unpaid principal amount of such Bank's Competitive Bid Loan on the last day of the Interest Period applicable to such Loan; and (iii) to the Administrative Agent, for its account, the then unpaid principal amount of each Swing Line Loan on the earlier of the Maturity Date and the first date after such Swing Line Loan is made that is the 15th or last day of a calendar month and is at least two Business Days after such Swing Line Loan is made; provided that on each date that a Syndicated Loan or Competitive Bid Loan is made, the Borrower shall repay all Swing Line Loans then outstanding.

(b) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Banks and each Bank's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section 2.4 shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Bank or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Bank may request that any Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Bank a promissory note payable to the order of such Bank (or, if requested by Bank, to such Bank and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 20) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.5. INTEREST ON LOANS.

(a) The outstanding principal amount of the Syndicated Loans shall bear interest at the rate per annum equal to (i) the Applicable Base Rate on Base Rate Loans, (ii) the Applicable Eurodollar Rate on Eurodollar Loans and (iii) the Applicable Swing Line Rate on Swing Line Loans.

(b) Interest shall be payable (i) quarterly in arrears on the first Business Day of each quarter, with the first such payment commencing October 1, 2002, on Base Rate Loans, (ii) on the last day of the applicable Interest Period, and if such Interest Period is longer than three months, also on the last day of each three month period following the commencement of such Interest Period, on Eurodollar Loans, and (iii) on the Maturity Date for all Loans.

SECTION 2.6. REQUESTS FOR SYNDICATED LOANS.

(a) The Borrower shall give to the Administrative Agent written notice in the form of Exhibit A hereto (or telephonic notice confirmed in writing or a facsimile in the form of Exhibit A hereto) of each Syndicated Loan requested hereunder (a "Syndicated Loan Request") not later than (a) 11:00 a.m. (New York time) on the proposed Drawdown Date of any Base Rate Loan, or (b) 11:00 a.m. (New York time) three (3) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Loan. Each such Syndicated Loan Request shall specify (A) the principal amount of the Syndicated Loan requested, (B) the proposed Drawdown Date of such Syndicated Loan, (C) whether such Syndicated Loan requested is to be a Base Rate Loan or a Eurodollar Loan, and (D) the Interest Period for such Syndicated Loan, if a Eurodollar Loan. Each Syndicated Loan requested shall be in a minimum amount of \$10,000,000. Each such Syndicated Loan Request shall reflect the Maximum Drawing Amount of all Letters of Credit outstanding and the amount of all Loans outstanding (including Competitive Bid Loans and Swing Line Loans). Syndicated Loan Requests made hereunder shall be irrevocable and binding on the Borrower, and shall obligate the Borrower to accept the Syndicated Loan requested from the Banks on the proposed Drawdown Date.

(b) Each of the representations and warranties made by the Borrower to the Banks or the Administrative Agent in this Agreement or any other Loan Document shall be true and correct in all material respects when made and shall, for all purposes of this Agreement, be deemed to be repeated by the Borrower on and as of the date of the submission of a Syndicated Loan Request, Competitive Bid Quote Request, or Letter of Credit Application and on and as of the Drawdown Date of any Loan or the date of issuance of any Letter of Credit (except to the extent (i) of changes resulting from transactions contemplated or permitted by this Agreement and the other Loan Documents, (ii) of changes occurring in the ordinary course of business that either individually or in the aggregate do not result in a Material Adverse Effect, or (iii) that such representations and warranties expressly relate only to an earlier date).

(c) The Administrative Agent shall promptly notify each Bank of each Syndicated Loan Request received by the Administrative Agent (i) on the proposed Drawdown Date of any Base Rate Loan, or (ii) three (3) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Loan.

SECTION 2.7. ELECTION OF EURODOLLAR RATE; NOTICE OF ELECTION; INTEREST PERIODS; MINIMUM AMOUNTS.

(a) At the Borrower's option, so long as no Default or Event of Default has occurred and is then continuing, the Borrower may (i) elect to convert any Base Rate Loan or a portion thereof to a Eurodollar Loan, (ii) at the time of any Syndicated Loan Request, specify that such requested Loan shall be a Eurodollar Loan, or (iii) upon expiration of the applicable Interest Period, elect to maintain an existing Eurodollar Loan as such, provided that the Borrower give notice to the Administrative Agent pursuant to Section 2.7(b) hereof. Upon determining any Eurodollar Rate, the Administrative Agent shall forthwith provide notice thereof to the Borrower and the Banks, and each such notice to the Borrower shall be considered prima facie correct and binding, absent manifest error.

(b) Three (3) Eurodollar Business Days prior to the making of any Eurodollar Loan or the conversion of any Base Rate Loan to a Eurodollar Loan, or, in the case of an outstanding Eurodollar Loan, the expiration date of the applicable Interest Period, the Borrower shall give written, telex or facsimile notice (or telephonic notice promptly confirmed in a writing or a facsimile) received by the Administrative Agent not later than 11:00 a.m. (New York time) of its election pursuant to Section 2.7(a). Each such notice delivered to the Administrative Agent shall specify the aggregate principal amount of the Syndicated Loans to be borrowed or maintained as or converted to Eurodollar Loans and the requested duration of the Interest Period that will be applicable to such Eurodollar Loan, and shall be irrevocable and binding upon the Borrower. If the Borrower shall fail to give the Administrative Agent notice of its election hereunder together with all of the other information required by this Section 2.7(b) with respect to any Syndicated Loan, whether at the end of an Interest Period or otherwise, such Syndicated Loan shall be deemed a Base Rate Loan. The Administrative Agent shall promptly notify the Banks in writing (or by telephone confirmed in writing or by facsimile) of such election.

(c) Notwithstanding anything herein to the contrary, the Borrower may not specify an Interest Period that would extend beyond the Maturity Date.

(d) No conversion of Loans pursuant to this Section 2.7 may result in any Eurodollar Borrowing that is less than \$5,000,000. In no event shall the Borrower have more than ten (10) different Interest Periods for Borrowings of Eurodollar Loans outstanding at any time.

(e) Subject to the terms and conditions of Section 5.8 hereof, if any Affected Bank demands compensation under Section 5.5(c) or (d) with respect to any Eurodollar Loan, the Borrower may at any time, upon at least three (3) Business Days' prior written notice to the applicable Administrative Agent, elect to convert such Eurodollar Loan into a Base Rate Loan (on which interest and principal shall be payable contemporaneously with the related Eurodollar Loans of the other Banks). Thereafter, and until such time as the Affected Bank notifies the Administrative Agent that the circumstances giving rise to the demand for compensation under Section 5.5(c) or (d) no longer exist, all requests for Eurodollar Loans from such Affected Bank shall be deemed to be requests for Base Rate Loans. Once the Affected Bank notifies the Administrative Agent that such circumstances no longer exist, the Borrower may elect that the principal amount of each such Loan converted hereunder shall again bear interest as Eurodollar

Loans beginning on the first day of the next succeeding Interest Period applicable to the related Eurodollar Loans of the other Banks.

SECTION 2.8. FUNDS FOR SYNDICATED LOANS. Not later than 1:00 p.m. (New York time) on the proposed Drawdown Date of Syndicated Loans, each of the Banks will make available to the Administrative Agent at its Loan Office, in immediately available funds, the amount of its Commitment Percentage of the amount of the requested Loan. Upon receipt from each Bank of such amount, and upon receipt of the documents required by Section 10 and Section 11 and the satisfaction of the other conditions set forth therein, the Administrative Agent will make available to the Borrower the aggregate amount of such Syndicated Loans made available by the Banks. The failure or refusal of any Bank to make available to the Administrative Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Syndicated Loan shall not relieve any other Bank from its several obligations hereunder to make available to the Administrative Agent the amount of such Bank's Commitment Percentage of the requested Loan.

SECTION 2.9. MATURITY OF THE LOANS AND REIMBURSEMENT OBLIGATIONS. The Borrower promises to pay on the Maturity Date, and there shall become absolutely due and payable on the Maturity Date, all of the Loans and unpaid Reimbursement Obligations outstanding on such date, together with any and all accrued and unpaid interest thereon and any fees and other amounts owing hereunder.

SECTION 2.10. OPTIONAL PREPAYMENTS OR REPAYMENTS OF LOANS. Subject to the terms and conditions of Section 5.8, the Borrower shall have the right, at its election, to repay or prepay the outstanding amount of the Loans, as a whole or in part, at any time without penalty or premium. The Borrower shall give the Administrative Agent no later than 11:00 a.m. (New York time) (a) on the proposed date of prepayment or repayment of Base Rate Loans, and (b) three (3) Eurodollar Business Day prior to the proposed date of prepayment or repayment of all other Loans, written notice (or telephonic notice confirmed in writing or by facsimile) of any proposed prepayment or repayment pursuant to this Section 2.10, specifying the proposed date of prepayment or repayment of Loans and the principal amount to be paid. Notwithstanding the foregoing, the Borrower may not prepay any Competitive Bid Loans without the consent of the applicable Bank. The Administrative Agent shall promptly notify each Bank by written notice (or telephonic notice confirmed in writing or by facsimile) of such notice of payment.

SECTION 2.11. SWING LINE LOANS; SETTLEMENTS.

(a) Notwithstanding the notice and minimum amount requirements set forth in Section 2.6 but otherwise in accordance with the terms and conditions of this Agreement, and solely for ease of administration of the Syndicated Loans, the Administrative Agent may, but shall not be required to, fund Base Rate Loans made in accordance with the provisions of this Agreement ("Swing Line Loans").

At the discretion of the Administrative Agent, Swing Line Loans may be in amounts less than \$10,000,000 provided that the outstanding amount of Swing Line Loans advanced by the Administrative Agent hereunder shall not exceed \$10,000,000 at any time. Each Bank shall remain severally and unconditionally liable to fund its pro rata share (based upon each Bank's Commitment Percentage)

of such Swing Line Loans on each Swing Line Settlement Date and, in the event the Administrative Agent chooses not to fund any Swing Line Loans requested on any date, to fund its Commitment Percentage of the Base Rate Loans requested, subject to satisfaction of the provisions hereof relating to such Bank's Commitment to make the Base Rate Loans. Prior to each Swing Line Settlement, all payments or repayments of the principal of, and interest on, Swing Line Loans shall be credited to the account of the Administrative Agent.

(b) The Banks shall effect Swing Line Settlements on (i) the Business Day immediately following any day which the Administrative Agent gives written notice to effect a Swing Line Settlement, (ii) the Business Day immediately following the Administrative Agent's becoming aware of the existence of any Default or Event of Default and (iii) the Maturity Date (each such date, a "Swing Line Settlement Date"). One (1) Business Day prior to each such Swing Line Settlement Date, the Administrative Agent shall give telephonic notice to the Banks of (A) the respective outstanding amount of Syndicated Loans made by each Bank as at the close of business on the prior day, (B) the amount that any Bank, as applicable (a "Swing Line Settling Bank"), shall pay to effect a Swing Line Settlement (a "Swing Line Settlement Amount") and (C) the portion (if any) of the aggregate Swing Line Settlement Amount to be paid to each Bank. A statement of the Administrative Agent submitted to the Banks with respect to any amounts owing hereunder shall be prima facie evidence of the amount due and owing. Each Swing Line Settling Bank shall, not later than 1:00 p.m. (New York time) on each Swing Line Settlement Date, effect a wire transfer of immediately available funds to the Administrative Agent at its Loan Office in the amount of such Bank's Swing Line Settlement Amount. The Administrative Agent shall, as promptly as practicable during normal business hours on each Swing Line Settlement Date, effect a wire transfer of immediately available funds to each Bank of the Swing Line Settlement Amount to be paid to such Bank. All funds advanced by any Bank as a Swing Line Settling Bank pursuant to this Section 2.11(b) shall for all purposes be treated as a Base Rate Loan made by such Swing Line Settling Bank to the Borrower, and all funds received by any Bank pursuant to this Section 2.11(b) shall for all purposes be treated as repayment of amounts owed by the Borrower with respect to Base Rate Loans made by such Bank.

(c) The Administrative Agent may (unless notified to the contrary by any Swing Line Settling Bank by 12:00 noon (New York time) one (1) Business Day prior to the Settlement Date) assume that each Swing Line Settling Bank has made available (or will make available by the time specified in Section 2.11(b)) to the Administrative Agent its Swing Line Settlement Amount, and the Administrative Agent may (but shall not be required to), in reliance upon such assumption, make available to each applicable Bank its share (if any) of the aggregate Swing Line Settlement Amount. If the Swing Line Settlement Amount of such Swing Line Settling Bank is made available to the Administrative Agent by such Swing Line Settling Bank on a date after such Swing Line Settlement Date, such Swing Line Settling Bank shall pay the Administrative Agent on demand an amount equal to the product of (i) the average, computed for the period referred to in clause (iii) below, of the weighted average annual interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day

included in such period times (ii) such Swing Line Settlement Amount times (iii) a fraction, the numerator of which is the number of days that elapse from and including such Swing Line Settlement Date to but not including the date on which such Swing Line Settlement Amount shall become immediately available to the Administrative Agent, and the denominator of which is 365. Upon payment of such amount such Swing Line Settling Bank shall be deemed to have delivered its Swing Line Settlement Amount on the Swing Line Settlement Date and shall become entitled to interest payable by the Borrower with respect to such Swing Line Settling Bank's Swing Line Settlement Amount as if such share were delivered on the Swing Line Settlement Date. If such Swing Line Settlement Amount is not in fact made available to the Administrative Agent by such Swing Line Settling Bank within three (3) Business Days of such Swing Line Settlement Date, the Administrative Agent shall be entitled to recover such amount from the Borrower, with interest thereon at the Applicable Base Rate.

(d) After any Swing Line Settlement Date, any payment by the Borrower of Swing Line Loans hereunder shall be allocated among the Banks, in amounts determined so as to provide that after such application and the related Swing Line Settlement, the outstanding amount of Syndicated Loans of each Bank equals, as nearly as practicable, such Bank's Commitment Percentage of the aggregate amount of Syndicated Loans.

SECTION 3. LETTERS OF CREDIT.

SECTION 3.1. LETTER OF CREDIT COMMITMENTS.

(a) Subject to the terms and conditions hereof and the receipt of a Letter of Credit Application by an Issuing Bank, with a copy to the Administrative Agent reflecting the Maximum Drawing Amount of all Letters of Credit (including the requested Letter of Credit), such Issuing Bank, on behalf of the Banks and in reliance upon the representations and warranties of the Borrower contained herein and the agreement of the Banks contained in Section 3.1(b) hereof, agrees to issue standby Letters of Credit (including so-called "direct pay" standby Letters of Credit) for the account of the Borrower (which may, with such Issuing Bank's consent, incorporate automatic renewals for periods of up to twelve (12) months), in such form as may be requested from time to time by the Borrower and agreed to by the Issuing Bank; provided, however, that, after giving effect to such request, the aggregate Maximum Drawing Amount of all Letters of Credit issued at any time shall not exceed the Total Commitment minus the aggregate outstanding amount of the Loans and provided further, that no Letter of Credit shall have an expiration date later than the earlier of (i) eighteen (18) months after the date of issuance (which may incorporate automatic renewals for periods of up to twelve (12) months), or (ii) five (5) Business Days prior to the Maturity Date.

(b) Each Letter of Credit shall be denominated in Dollars. Each Bank severally agrees that it shall be absolutely liable, without regard to the occurrence of any Default or Event of Default, the termination of the Total Commitment pursuant to Section 12.2, or any other condition precedent whatsoever, to the extent of such Bank's Commitment Percentage to reimburse the Issuing Bank on demand for the amount of each draft paid by the Issuing Bank under each Letter of Credit

to the extent that such amount is not reimbursed by the Borrower pursuant to Section 3.2 (such agreement for a Bank being called herein the "Letter of Credit Participation" of such Bank). Each Bank agrees that its obligation to reimburse the Issuing Bank pursuant to this Section 3.1(b) shall not be affected in any way by any circumstance other than the gross negligence or willful misconduct of the Issuing Bank.

(c) Each such reimbursement payment made by a Bank to the Issuing Bank shall be treated as the purchase by such Bank of a participating interest in the applicable Reimbursement Obligation under Section 3.2 in an amount equal to such payment. Each Bank shall share in accordance with its participating interest in any interest which accrues pursuant to Section 3.2.

SECTION 3.2. REIMBURSEMENT OBLIGATION OF THE BORROWER. In order to induce the Issuing Banks to issue, extend and renew each Letter of Credit, the Borrower hereby agrees to reimburse or pay to each Issuing Bank, with respect to each Letter of Credit issued, extended or renewed by such Issuing Bank hereunder as follows:

(a) if any draft presented under any Letter of Credit is honored by such Issuing Bank or such Issuing Bank otherwise makes payment with respect thereto, the sum of (i) the amount paid by such Issuing Bank under or with respect to such Letter of Credit, and (ii) the amount of any taxes, fees, charges or other costs and expenses whatsoever incurred by such Issuing Bank in connection with any payment made by such Issuing Bank under, or with respect to, such Letter of Credit, provided however, if the Borrower does not reimburse such Issuing Bank on the Drawdown Date, such amount shall, provided that no Event of Default under Sections 12.1(g) or 12.1(h) has occurred, become automatically a Syndicated Loan which is a Base Rate Loan advanced hereunder in an amount equal to such sum; and

(b) upon the Maturity Date or the acceleration of the Reimbursement Obligations with respect to all Letters of Credit in accordance with Section 12, an amount equal to the then Maximum Drawing Amount of all Letters of Credit shall be paid by the Borrower to the Administrative Agent to be held as cash collateral for the applicable Reimbursement Obligations.

SECTION 3.3. OBLIGATIONS ABSOLUTE. The Borrower's respective obligations under this Section 3 shall be absolute and unconditional under any and all circumstances and irrespective of the occurrence of any Default or Event of Default or any condition precedent whatsoever or any setoff, counterclaim or defense to payment which the Borrower may have or have had against any Issuing Bank, any Bank or any beneficiary of a Letter of Credit, and the Borrower expressly waives any such rights that it may have with respect thereto. The Borrower further agrees with each Issuing Bank and the Banks that such Issuing Bank and the Banks (i) shall not be responsible for, and the Borrower's Reimbursement Obligations under Section 3.2 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged (unless due to the willful misconduct of such Issuing Bank or any other Bank), or any dispute between or among the Borrower and the beneficiary of any Letter of Credit or any financing institution or other party to which any Letter of Credit may be transferred or

any claims or defenses whatsoever of the Borrower against the beneficiary of any Letter of Credit or any such transferee, and (ii) shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit except to the extent of their own willful misconduct. The Borrower agrees that any action taken or omitted by any Issuing Bank or any Bank in good faith under or in connection with any Letter of Credit and the related drafts and documents shall be binding upon the Borrower and shall not result in any liability on the part of such Issuing Bank or any Bank (or their respective affiliates) to the Borrower. Nothing herein shall constitute a waiver by the Borrower of any of its rights against any beneficiary of a Letter of Credit.

SECTION 3.4. RELIANCE BY THE ISSUING BANKS. To the extent not inconsistent with Section 3.3, each Issuing Bank shall be entitled to rely, and shall be fully protected in relying, upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, facsimile, telex or teletype message, statement, order or other document believed by such Issuing Bank in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Bank.

SECTION 3.5. NOTICE REGARDING LETTERS OF CREDIT. One (1) Business Day prior to the issuance of any Letter of Credit or amendments, extensions or terminations thereof, the applicable Issuing Bank shall notify the Administrative Agent of the terms of such Letter of Credit, amendment, extension or termination. On the day of any drawing under any Letter of Credit, such Issuing Bank shall notify the Administrative Agent of such drawing under any Letter of Credit.

SECTION 3.6. LETTER OF CREDIT FEE. The Borrower shall pay a fee (the "Letter of Credit Fee") equal to the Applicable L/C Rate on the Maximum Drawing Amount of the Letters of Credit to the Administrative Agent for the account of the Banks, to be shared pro rata by the Banks in accordance with their respective Commitment Percentages. The Letter of Credit Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the quarter just ended, with the first such payment commencing October 1, 2002, and on the Maturity Date. In addition, an issuance fee (the "Issuance Fee") with respect to each Letter of Credit to be agreed upon annually between the Borrower and each Issuing Bank shall be payable by the Borrower to such Issuing Bank for its account.

SECTION 4. COMPETITIVE BID LOANS.

SECTION 4.1. THE COMPETITIVE BID OPTION. In addition to the Syndicated Loans made pursuant to Section 2 hereof, the Borrower may request Competitive Bid Loans pursuant to the terms of this Section 4. The Banks may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept such offers in the manner set forth in this Section 4. Notwithstanding any other provision herein to the contrary, at no time shall the aggregate principal amount of Competitive Bid Loans outstanding at any time exceed the Total Commitment minus the sum of (a) the aggregate outstanding principal amount of Syndicated Loans (including the Swing Loans), plus (b) the Maximum Drawing Amount of Letters of Credit, outstanding at such time.

SECTION 4.2. COMPETITIVE BID LOAN ACCOUNTS; COMPETITIVE BID LOANS.

(a) The obligation of the Borrower to repay the outstanding principal amount of any and all Competitive Bid Loans, plus interest at the applicable rate accrued thereon, shall be evidenced by this Agreement and by individual loan accounts (the "Competitive Bid Loan Accounts" and individually, a "Competitive Bid Loan Account") maintained by the Administrative Agent on its books for each of the Banks, it being the intention of the parties hereto that, except as provided for in paragraph (b) of this Section 4.2, the Borrower's obligations with respect to Competitive Bid Loans are to be evidenced only as stated herein and not by separate promissory notes.

(b) Any Bank may at any time, and from time to time, request that any Competitive Bid Loans outstanding to such Bank be evidenced by a promissory note of the Borrower in the form approved by the Administrative Agent, dated as of the Effective Date and completed with appropriate insertions.

(c) The Borrower irrevocably authorizes the Administrative Agent to make or cause to be made, in connection with a Drawdown Date of any Competitive Bid Loan or at the time of receipt of any payment of principal on the applicable Bank's Competitive Bid Loan Account, an appropriate notation on the Administrative Agent's records, reflecting the making of the Competitive Bid Loan, or the receipt of such payment (as the case may be). The outstanding amount of the Competitive Bid Loans set forth on the Administrative Agent's records, shall be prima facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount shall not limit or otherwise affect the obligations of the Borrower hereunder to make payments of principal of or interest on any Competitive Bid Loan when due.

SECTION 4.3. COMPETITIVE BID QUOTE REQUEST; INVITATION FOR COMPETITIVE BID QUOTES.

(a) When the Borrower wishes to request offers to make Competitive Bid Loans under this Section 4, it shall transmit to the Administrative Agent by telex or facsimile a Competitive Bid Quote Request substantially in the form of Exhibit E hereto (a "Competitive Bid Quote Request") so as to be received no later than 1:00 p.m. (New York time) (x) five (5) Eurodollar Business Days prior to the requested Drawdown Date in the case of a Eurodollar Competitive Bid Loan (a "Eurodollar Competitive Bid Loan") or (y) one (1) Business Day prior to the requested Drawdown Date in the case of an Absolute Competitive Bid Loan (an "Absolute Competitive Bid Loan"), specifying:

(i) the requested Drawdown Date (which must be a Eurodollar Business Day in the case of a Eurodollar Competitive Bid Loan or a Business Day in the case of an Absolute Competitive Bid Loan);

(ii) the aggregate amount of such Competitive Bid Loans, which shall be \$10,000,000 or larger multiple of \$1,000,000;

(iii) the duration of the Interest Period(s) applicable thereto, subject to the provisions of the definition of Interest Period; and

(iv) whether the Competitive Bid Quotes requested are for Eurodollar Competitive Bid Loans or Absolute Competitive Bid Loans.

The Borrower may request offers to make Competitive Bid Loans for more than one Interest Period in a single Competitive Bid Quote Request. No new Competitive Bid Quote Request shall be given until the Borrower has notified the Administrative Agent of its acceptance or non-acceptance of the Competitive Bid Quotes relating to any outstanding Competitive Bid Quote Request.

(b) Promptly upon receipt of a Competitive Bid Quote Request, the Administrative Agent shall send to the Banks by telecopy or facsimile transmission an Invitation for Competitive Bid Quotes substantially in the form of Exhibit F hereto, which shall constitute an invitation by the Borrower to each Bank to submit Competitive Bid Quotes in accordance with this Section 4.

SECTION 4.4. ALTERNATIVE MANNER OF PROCEDURE. If, after receipt by the Administrative Agent and each of the Banks of a Competitive Bid Quote Request from the Borrower in accordance with Section 4.3, the Administrative Agent or any Bank shall be unable to complete any procedure of the auction process described in Sections 4.5 through 4.6 (inclusive) due to the inability of such Person to transmit or receive communications through the means specified therein, such Person may rely on telephonic notice for the transmission or receipt of such communications. In any case where such Person shall rely on telephone transmission or receipt, any communication made by telephone shall, as soon as possible thereafter, be followed by written confirmation thereof.

SECTION 4.5. SUBMISSION AND CONTENTS OF COMPETITIVE BID QUOTES.

(a) Each Bank may, but shall be under no obligation to, submit a Competitive Bid Quote containing an offer or offers to make Competitive Bid Loans in response to any Competitive Bid Quote Request. Each Competitive Bid Quote must comply with the requirements of this Section 4.5 and must be submitted to the Administrative Agent by telex or facsimile transmission at its offices as specified in or pursuant to Section 22 not later than (x) 2:00 p.m. (New York time) on the fourth Eurodollar Business Day prior to the proposed Drawdown Date, in the case of a Eurodollar Competitive Bid Loan or (y) 10:00 a.m. (New York time) on the proposed Drawdown Date, in the case of an Absolute Competitive Bid Loan, provided that Competitive Bid Quotes may be submitted by the Administrative Agent in its capacity as a Bank only if it submits its Competitive Bid Quote to the Borrower not later than (x) one hour prior to the deadline for the other Banks, in the case of a Eurodollar Competitive Bid Loan or (y) 15 minutes prior to the deadline for the other Banks, in the case of an Absolute Competitive Bid Loan. Subject to the provisions of Sections 10 and 11 hereof, any Competitive Bid Quote so made shall be irrevocable except with the written consent of the Administrative Agent given on the instructions of the Borrower.

(b) Each Competitive Bid Quote shall be in substantially the form of Exhibit G hereto and shall in any case specify:

(i) the proposed Drawdown Date;

(ii) the principal amount of the Competitive Bid Loan for which each proposal is being made, which principal amount (w) may be greater than or less than the Commitment of the quoting Bank, (x) must be \$5,000,000 or a larger multiple of \$1,000,000, (y) may not exceed the aggregate principal amount of Competitive Bid Loans for which offers were requested and (z) may be subject to an aggregate limitation as to the principal amount of Competitive Bid Loans for which offers being made by such quoting Bank may be accepted;

(iii) the Interest Period(s) for which Competitive Bid Quotes are being submitted;

(iv) in the case of a Eurodollar Competitive Bid Loan, the margin above or below the applicable Eurodollar Rate (the "Competitive Bid Margin") offered for each such Competitive Bid Loan, expressed as a percentage (specified to the nearest 1/10,000th of 1%) to be added to or subtracted from such Eurodollar Rate;

(v) in the case of an Absolute Competitive Bid Loan, the rate of interest per annum (specified to the nearest 1/10,000th of 1%) (the "Competitive Bid Rate") offered for each such Absolute Competitive Bid Loan; and

(vi) the identity of the quoting Bank.

A Competitive Bid Quote may include up to five separate offers by the quoting Bank with respect to each Interest Period specified in the related Invitation for Competitive Bid Quotes.

(c) Any Competitive Bid Quote shall be disregarded if it:

- (i) is not substantially in the form of Exhibit G hereto;
- (ii) contains qualifying, conditional or similar language;
- (iii) proposes terms other than or in addition to those set forth in the applicable Invitation for Competitive Bid Quotes; or
- (iv) arrives after the time set forth in Section 4.5(a) hereof.

SECTION 4.6. NOTICE TO BORROWER. The Administrative Agent shall promptly notify the Borrower of the terms (x) of any Competitive Bid Quote submitted by a Bank that is in accordance with Section 4.5 and (y) of any Competitive Bid Quote that amends, modifies or is otherwise inconsistent with a previous Competitive Bid Quote submitted by such Bank with respect to the same Competitive Bid Quote Request. Any such subsequent Competitive Bid Quote shall be disregarded by the Administrative Agent unless such subsequent Competitive Bid Quote is submitted solely to correct a manifest error in such former Competitive Bid Quote. The Administrative Agent's notice to the Borrower shall specify (A) the aggregate principal amount of Competitive Bid Loans for which offers have been received for each Interest Period specified in the related Competitive Bid

Quote Request, (B) the respective principal amounts and Competitive Bid Margins or Competitive Bid Rates, as the case may be, so offered, and the identity of the respective Banks submitting such offers, and (C) if applicable, limitations on the aggregate principal amount of Competitive Bid Loans for which offers in any single Competitive Bid Quote may be accepted.

SECTION 4.7. ACCEPTANCE AND NOTICE BY BORROWER AND ADMINISTRATIVE AGENT. Not later than 11:00 a.m. (New York time) on (x) the third Eurodollar Business Day prior to the proposed Drawdown Date, in the case of a Eurodollar Competitive Bid Loan or (y) the proposed Drawdown Date, in the case of an Absolute Competitive Bid Loan, the Borrower shall notify the Administrative Agent of its acceptance or non-acceptance of each Competitive Bid Quote in substantially the form of Exhibit H hereto. The Borrower may accept any Competitive Bid Quote in whole or in part; provided that:

(i) the aggregate principal amount of each Competitive Bid Loan may not exceed the applicable amount set forth in the related Competitive Bid Quote Request;

(ii) acceptance of offers may only be made on the basis of ascending Competitive Bid Margins or Competitive Bid Rates, as the case may be, and

(iii) the Borrower may not accept any offer that is described in subsection 4.5(c) or that otherwise fails to comply with the requirements of this Agreement.

The Administrative Agent shall promptly notify each Bank which submitted a Competitive Bid Quote of the Borrower's acceptance or non-acceptance thereof. At the request of any Bank which submitted a Competitive Bid Quote and with the consent of the Borrower, the Administrative Agent will promptly notify all Banks which submitted Competitive Bid Quotes of (a) the aggregate principal amount of, and (b) the range of Competitive Bid Rates or Competitive Bid Margins of, the accepted Competitive Bid Loans for each requested Interest Period.

SECTION 4.8. ALLOCATION BY ADMINISTRATIVE AGENT. If offers are made by two or more Banks with the same Competitive Bid Margin or Competitive Bid Rate, as the case may be, for a greater aggregate principal amount than the amount in respect of which offers are accepted for the related Interest Period, the principal amount of Competitive Bid Loans in respect of which such offers are accepted shall be allocated by the Administrative Agent among such Banks as nearly as possible (in such multiples, not less than \$1,000,000, as the Administrative Agent may deem appropriate) in proportion to the aggregate principal amounts of such offers. Determination by the Administrative Agent of the amounts of Competitive Bid Loans shall be conclusive in the absence of manifest error.

SECTION 4.9. FUNDING OF COMPETITIVE BID LOANS. If, on or prior to the Drawdown Date of any Competitive Bid Loan, the Total Commitment has not terminated in full and if, on such Drawdown Date, the applicable conditions of Sections 10 and 11 hereof are satisfied, the Bank or Banks whose offers the Borrower has accepted will fund each Competitive Bid Loan so accepted. Such Bank or Banks will make such Competitive Bid Loans by crediting the Administrative Agent for further credit to the Borrower's specified account

with the Administrative Agent, in immediately available funds not later than 1:00 p.m. (New York time) on such Drawdown Date.

SECTION 4.10. FUNDING LOSSES. If, after acceptance of any Competitive Bid Quote pursuant to Section 4, the Borrower (i) fails to borrow any Competitive Bid Loan so accepted on the date specified therefor, or (ii) repays the outstanding amount of the Competitive Bid Loan prior to the last day of the Interest Period relating thereto, the Borrower shall indemnify the Bank making such Competitive Bid Quote or funding such Competitive Bid Loan against any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain such unborrowed Competitive Bid Loans, including, without limitation compensation as provided in Section 5.8.

SECTION 4.11. REPAYMENT OF COMPETITIVE BID LOANS; INTEREST. The principal of each Competitive Bid Loan shall become absolutely due and payable by the Borrower on the last day of the Interest Period relating thereto, and the Borrower hereby absolutely and unconditionally promises to pay to the Administrative Agent for the account of the relevant Banks at or before 1:00 p.m. (New York time) on the last day of the Interest Periods relating thereto the principal amount of all such Competitive Bid Loans, plus interest thereon at the applicable rates. The Competitive Bid Loans shall bear interest at the rate per annum specified in the applicable Competitive Bid Quotes. Interest on the Competitive Bid Loans shall be payable (a) on the last day of the applicable Interest Periods, and if any such Interest Period is longer than three months, also on the last day of the third month following the commencement of such Interest Period, and (b) on the Maturity Date for all Loans. Subject to the terms of this Agreement, the Borrower may make Competitive Bid Quote Requests with respect to new Borrowings of any amounts so repaid prior to the Maturity Date.

SECTION 5. PROVISIONS RELATING TO ALL LOANS AND LETTERS OF CREDIT.

SECTION 5.1. PAYMENTS.

(a) All payments of principal, interest, Reimbursement Obligations, fees (other than the Issuance Fee) and any other amounts due hereunder or under any of the other Loan Documents shall be made to the Administrative Agent at its Loan Office in immediately available funds by 11:00 a.m. (New York time) on any due date. Subject to the provisions of Section 29, if a payment is received by the Administrative Agent at or before 1:00 p.m. (New York time) on any Business Day, the Administrative Agent shall on the same Business Day transfer in immediately available funds, as applicable, to (1) each of the Banks, their pro rata portion of such payment in accordance with their respective Commitment Percentages, in the case of payments with respect to Syndicated Loans and Letters of Credit, (2) the Administrative Agent in the case of payments with respect to Swing Line Loans, and (3) the appropriate Bank(s), in the case of payments with respect to Competitive Bid Loans. If such payment is received by the Administrative Agent after 1:00 p.m. (New York time) on any Business Day, such transfer shall be made by the Administrative Agent to the applicable Bank(s) on the next Business Day. In the event that the Administrative Agent fails to make such transfer to any Bank as set forth above, the Administrative Agent shall pay

to such Bank on demand an amount equal to the product of (i) the average, computed for the period referred to in clause (iii) below, of the weighted average interest rate paid by such Bank for funds acquired by such Bank during each day included in such period, times (ii) the amount (A) equal to such Bank's Commitment Percentage of such payment in the case of payments under clause (1) above, or (B) of such payment to which such Bank is entitled in the case of payments with respect to Competitive Bid Loans and Swing Line Loans, times (iii) a fraction, the numerator of which is the number of days that elapse from and including the date of payment to and including the date on which the amount due to such Bank shall become immediately available to such Bank, and the denominator of which is 365. A statement of such Bank submitted to the applicable Administrative Agent with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to such Bank by the Administrative Agent.

(b) All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without recoupment, setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Administrative Agent, for the account of the Banks or (as the case may be) the Administrative Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Banks or the Administrative Agent to receive the same net amount which the Banks or the Administrative Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Administrative Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

(c) Each Bank that is not incorporated or organized under the laws of the United States of America or a state thereof or the District of Columbia (a "Non-U.S. Bank") agrees that, prior to the first date on which any payment is due to it hereunder, it will deliver to the Borrower and the Administrative Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI or successor applicable form, as the case may be, certifying in each case that such Non-U.S. Bank is entitled to receive payments under this Agreement, without deduction or withholding of any United States federal income taxes. Each Non-U.S. Bank that so delivers a Form W-8BEN or W-8ECI pursuant to the preceding sentence further undertakes to deliver to each of the Borrower and the Administrative Agent two further copies of Form W-8BEN or W-8ECI or successor applicable form, or other manner of certification, as the case may be, on or before the date that any such letter or form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent

form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower, certifying in the case of a Form W-8BEN or W-8ECI that such Non-U.S. Bank is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Non-U.S. Bank from duly completing and delivering any such form with respect to it and such Non-U.S. Bank advises the Borrower that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(d) The Borrower shall not be required to pay any additional amounts to any Non-U.S. Bank in respect of United States Federal withholding tax pursuant to Section 17 to the extent that (i) the obligation to withhold amounts with respect to United States Federal withholding tax existed on the date such Non-U.S. Bank became a party to this Agreement or, with respect to payments to a different lending office designated by the Non-U.S. Bank as its applicable lending office (a "New Lending Office"), the date such Non-U.S. Bank designated such New Lending Office with respect to a Loan; provided, however, that this clause (i) shall not apply to any transferee or New Lending Office as a result of an assignment, transfer or designation made at the request of the Borrower; and provided further, however, that this clause (i) shall not apply to the extent the indemnity payment or additional amounts any transferee, or Bank through a New Lending Office, would be entitled to receive without regard to this clause (i) do not exceed the indemnity payment or additional amounts that the Person making the assignment or transfer to such transferee, or Bank making the designation of such New Lending Office, would have been entitled to receive in the absence of such assignment, transfer or designation; or (ii) the obligation to pay such additional amounts would not have arisen but for a failure by such Non-U.S. Bank to comply with the provisions of paragraph (b) above.

(e) Notwithstanding the foregoing, each Bank agrees to use reasonable efforts (consistent with legal and regulatory restrictions) to change its lending office to avoid or to minimize any amounts otherwise payable under Section 17 in each case solely if such change can be made in a manner so that such Bank, in its sole determination, suffers no legal, economic or regulatory disadvantage.

SECTION 5.2. MANDATORY REPAYMENTS OF THE LOANS. If at any time the sum of the outstanding principal amount of the Loans plus the Maximum Drawing Amount of all outstanding Letters of Credit exceeds the Total Commitment, whether by reduction of the Total Commitment or otherwise, then the Borrower shall immediately pay the amount of such excess to the Administrative Agent, (i) for application to the Loans, first to Syndicated Loans, then to Competitive Bid Loans, subject to Section 5.8, or (ii) if no Loans shall be outstanding, to be held by the Administrative Agent for the benefit of the Banks as collateral security for such excess Maximum Drawing Amount and the Borrower hereby grants a security interest in such amount to the Administrative Agent for the benefit of the Banks; provided, however, that if the amount of cash collateral held by the Administrative Agent pursuant to this Section 5.2(a) exceeds the Maximum Drawing Amount

required to be collateralized from time to time, the Administrative Agent shall return such excess to the Borrower.

SECTION 5.3. COMPUTATIONS. Except as otherwise expressly provided herein, all computations of interest, Facility Fees, Letter of Credit Fees or other fees shall be based on a 360-day year and paid for the actual number of days elapsed, except that computations based on the Base Rate shall be based on a 365 or 366, as applicable, day year and paid for the actual number of days elapsed. Whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension; provided that for any Interest Period for any Eurodollar Loan if such next succeeding Business Day falls in the next succeeding calendar month or after the Maturity Date, it shall be deemed to end on the next preceding Business Day.

SECTION 5.4. ILLEGALITY; INABILITY TO DETERMINE EURODOLLAR RATE. Notwithstanding any other provision of this Agreement (other than Section 5.10), if (a) the introduction of, any change in, or any change in the interpretation of, any law or regulation applicable to any Bank or the Administrative Agent shall make it unlawful, or any central bank or other governmental authority having jurisdiction thereof shall assert that it is unlawful, for any Bank or the Administrative Agent to perform its obligations in respect of any Eurodollar Loans, or (b) if any Bank or the Administrative Agent, as applicable, shall reasonably determine with respect to Eurodollar Loans that (i) by reason of circumstances affecting any Eurodollar interbank market, adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate which would otherwise be applicable during any Interest Period, or (ii) deposits of Dollars in the relevant amount for the relevant Interest Period are not available to such Bank or the Administrative Agent in any Eurodollar interbank market, or (iii) the Eurodollar Rate does not or will not accurately reflect the cost to the Bank or the Administrative Agent of obtaining or maintaining the Eurodollar Loans during any Interest Period, then such Bank or the Administrative Agent shall promptly give telephonic, telex or cable notice of such determination to the Borrower (which notice shall be conclusive and binding upon the Borrower). Upon such notification by the Bank or the Administrative Agent, the obligation of the Banks and the Administrative Agent to make Eurodollar Loans shall be suspended until the Banks or the Administrative Agent, as the case may be, determine that such circumstances no longer exist, and to the extent permitted by law the outstanding Eurodollar Loans shall continue to bear interest at the applicable rate based on the Eurodollar Rate until the end of the applicable Interest Period, and thereafter shall be deemed converted to Base Rate Loans in equal principal amounts to such former Eurodollar Loans.

SECTION 5.5. ADDITIONAL COSTS, ETC. If any present or future applicable law (which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Bank by any central bank or other fiscal, monetary or other authority, whether or not having the force of law) shall:

(a) subject such Bank to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Agreement, the other

Loan Documents, such Bank's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Bank imposed by the jurisdiction of its incorporation or organization, or the location of its lending office); or

(b) materially change the basis of taxation (except for changes in taxes on income or profits of such Bank imposed by the jurisdiction of its incorporation or organization, or the location of its lending office) of payments to such Bank of the principal or of the interest on any Loans or any other amounts payable to such Bank under this Agreement or the other Loan Documents; or

(c) except as provided in Section 5.6 or as otherwise reflected in the Base Rate, the Eurodollar Rate, or the applicable rate for Competitive Bid Loans, impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or commitments of, an office of any Bank with respect to this Agreement, the other Loan Documents, such Bank's Commitment or the Loans; or

(d) impose on such Bank any other conditions or requirements with respect to this Agreement, the other Loan Documents, the Loans, such Bank's Commitment or any class of loans or commitments of which any of the Loans or such Bank's Commitment forms a part, and the result of any of the foregoing is:

(i) to increase the cost to such Bank of making, funding, issuing, renewing, extending or maintaining the Loans or such Bank's Commitment or issuing or participating in Letters of Credit;

(ii) to reduce the amount of principal, interest or other amount payable to such Bank hereunder on account of such Bank's Commitment, the Loans or the Reimbursement Obligations; or

(iii) to require such Bank to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Bank from the Borrower hereunder,

then, and in each such case, the Borrower will, upon demand made by such Bank at any time and from time to time as often as the occasion therefore may arise (which demand shall be accompanied by a statement setting forth the basis of such demand which shall be conclusive absent manifest error), pay such reasonable additional amounts as will be sufficient to compensate such Bank for such additional costs, reduction, payment or foregone interest or other sum.

SECTION 5.6. CAPITAL ADEQUACY. If any Bank shall have determined that, after the date hereof, (a) the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule, or regulation, or any change in the

interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, or (b) compliance by such Bank or the Administrative Agent or any corporation controlling such Bank or the Administrative Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has or would have the effect of reducing the rate of return on capital of such Bank (or any corporation controlling such Bank) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or any corporation controlling such Bank) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank, the Borrower shall pay to such Bank such additional amount or amounts as will, in such Bank's reasonable determination, fairly compensate such Bank (or any corporation controlling such Bank) for such reduction. Each Bank shall allocate such cost increases among its customers in good faith and on an equitable basis.

SECTION 5.7. CERTIFICATE. A certificate setting forth the additional amounts payable pursuant to Section 5.5 or Section 5.6 and a reasonable explanation of such amounts which are due, submitted by any Bank to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing; provided that no Bank shall be entitled to additional amounts with respect to events or circumstances occurring more than one hundred and twenty (120) days prior to the delivery of such certificate.

SECTION 5.8. EURODOLLAR AND COMPETITIVE BID INDEMNITY. The Borrower agrees to indemnify the Banks and the Administrative Agent and to hold them harmless from and against any reasonable loss, cost or expense that any such Bank and the Administrative Agent may sustain or incur as a consequence of (a) the default by the Borrower in payment of the principal amount of or any interest on any Eurodollar Loans or Competitive Bid Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by any Bank or the Administrative Agent to lenders of funds obtained by it in order to maintain its Eurodollar Loans or Competitive Bid Loans, (b) the default by the Borrower in making a Borrowing of a Eurodollar Loan or Competitive Bid Loan or conversion of a Eurodollar Loan or a prepayment of a Eurodollar or Competitive Bid Loan after the Borrower has given (or is deemed to have given) a Syndicated Loan Request, a notice pursuant to Section 2.7 or a Notice of Acceptance/Rejection of Competitive Bid Quote(s), or a notice pursuant to Section 2.10, and (c) the making of any payment of a Eurodollar Loan or Competitive Bid Loan, or the making of any conversion of any Eurodollar Loan to a Base Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto. Such loss, cost, or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by each Bank of (i) its cost of obtaining the funds for (A) the Eurodollar Loan being paid, prepaid, converted, not converted, reallocated, or not borrowed, as the case may be (based on the Eurodollar Rate), or (B) the Competitive Bid Loan being paid, prepaid, or not borrowed, as the case may be (based on the applicable interest rate) for the period from the date of such payment, prepayment, conversion, or failure to borrow or convert, as the case may be, to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for the Loan which would have

commenced on the date of such failure to borrow) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid, converted, or not borrowed, converted, or prepaid for such period or Interest Period, as the case may be, which determinations shall be conclusive absent manifest error.

SECTION 5.9. INTEREST ON OVERDUE AMOUNTS. Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder or under any of the other Loan Documents shall bear interest compounded monthly and payable on demand at a rate per annum equal to the Applicable Base Rate plus 2%, until such amount shall be paid in full (after as well as before judgment).

SECTION 5.10. INTEREST LIMITATION. Notwithstanding any other term of this Agreement, any other Loan Document or any other document referred to herein or therein, the maximum amount of interest which may be charged to or collected from any Person liable hereunder by any Bank shall be absolutely limited to, and shall in no event exceed, the maximum amount of interest which could lawfully be charged or collected by such Bank under applicable laws (including, to the extent applicable, the provisions of Section 5197 of the Revised Statutes of the United States of America, as amended, and 12 U.S.C. Section 85, as amended).

SECTION 5.11. REASONABLE EFFORTS TO MITIGATE. Each Bank agrees that as promptly as practicable after it becomes aware of the occurrence of an event or the existence of a condition that would cause it to be affected under Sections 5.4, 5.5 or 5.6, such Bank will give notice thereof to the Borrower, with a copy to the Administrative Agent and, to the extent so requested by the Borrower and not inconsistent with such Bank's internal policies, such Bank shall use reasonable efforts and take such actions as are reasonably appropriate if as a result thereof the additional moneys which would otherwise be required to be paid to such Bank pursuant to such sections would be materially reduced, or the illegality or other adverse circumstances which would otherwise require a conversion of such Loans or result in the inability to make such Loans pursuant to such sections would cease to exist, and in each case if, as determined by such Bank in its sole discretion, the taking of such actions would not adversely affect such Loans or such Bank or otherwise be disadvantageous to such Bank.

SECTION 5.12. REPLACEMENT OF BANKS. If any Bank (an "Affected Bank") (i) makes demand upon the Borrower for (or if the Borrower is otherwise required to pay) amounts pursuant to Sections 5.5 or 5.6, (ii) is unable to make or maintain Eurodollar Loans as a result of a condition described in Section 5.4 or (iii) defaults in its obligation to make Loans or to participate in Letters of Credit in accordance with the terms of this Agreement (such Bank being referred to as a "Defaulting Bank"), the Borrower may, within 90 days of receipt of such demand, notice (or the occurrence of such other event causing the Borrower to be required to pay such compensation or causing Section 5.4 to be applicable), or default, as the case may be, by notice (a "Replacement Notice") in writing to the Administrative Agent and such Affected Bank (A) request the Affected Bank to cooperate with the Borrower in obtaining a replacement bank satisfactory to the Administrative Agent and the Borrower (the "Replacement Bank") as provided herein, but none of such Banks shall be under an obligation to find a Replacement Bank; (B) request the non-Affected Banks to acquire and assume all of the Affected Bank's Loans and Commitment, and to participate in Letters of Credit as provided herein, but none of

such Banks shall be under an obligation to do so; or (C) designate a Replacement Bank reasonably satisfactory to the Administrative Agent. If any satisfactory Replacement Bank shall be obtained, and/or any of the non-Affected Banks shall agree to acquire and assume all of the Affected Bank's Loans and Commitment, and to participate in Letters of Credit then such Affected Bank shall, so long as no Event of Default shall have occurred and be continuing, assign, in accordance with Section 20, all of its Commitment, Loans, and other rights and obligations under this Agreement and all other Loan Documents to such Replacement Bank or non-Affected Banks, as the case may be, in exchange for payment of the principal amount so assigned and all interest and fees accrued on the amount so assigned, plus all other Obligations then due and payable to the Affected Bank; provided, however, that (x) such assignment shall be without recourse, representation or warranty and shall be on terms and conditions reasonably satisfactory to such Affected Bank and such Replacement Bank and/or non-Affected Banks, as the case may be, and (y) prior to any such assignment, the Borrower shall have paid to such Affected Bank all amounts properly demanded and unreimbursed under Sections 5.5, 5.6 and 5.8. Upon the effective date of such assignment, such Replacement Bank shall become a "Bank" for all purposes under this Agreement and the other Loan Documents.

SECTION 5.13. ADVANCES BY ADMINISTRATIVE AGENT. The Administrative Agent may (unless earlier notified to the contrary by any Bank by 12:00 noon (New York time) one (1) Business Day prior to any Drawdown Date) assume that each Bank has made available (or will before the end of such Business Day make available) to the Administrative Agent the amount of such Bank's Commitment Percentage with respect to the Loans (or, in the case of Competitive Bid Loans, the amount of such Bank's accepted offers of such Loans, if any) to be made on such Drawdown Date, and the Administrative Agent may (but shall not be required to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Bank makes such amount available to the Administrative Agent on a date after such Drawdown Date, such Bank shall pay the Administrative Agent on demand an amount equal to the product of (i) the average, computed for the period referred to in clause (iii) below, of the weighted average annual interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period times (ii) the amount equal to such Bank's Commitment Percentage of such Syndicated Loan (or, in the case of Competitive Bid Loans and Swing Line Loans, the amount of such Bank's accepted offer of such Competitive Bid Loans, if any, and portion of such Swing Line Loans) times (iii) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to but not including the date on which the amount equal to such Bank's Commitment Percentage of such Loans, or the amount of such Bank's accepted offers of such Competitive Bid Loans, if any, and portion of Swing Line Loans, shall become immediately available to the Administrative Agent, and the denominator of which is 365. A statement of the Administrative Agent submitted to such Bank with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to the Administrative Agent by such Bank. If such amount is not in fact made available to the Administrative Agent by such Bank within three (3) Business Days of such Drawdown Date, the Administrative Agent shall be entitled to recover such amount from such Borrower, with interest thereon at the applicable rate per annum.

SECTION 6. REPRESENTATIONS AND WARRANTIES. The Borrower (and the Guarantor, where applicable) represents and warrants to the Banks that:

SECTION 6.1. CORPORATE AUTHORITY.

(a) Incorporation; Good Standing. The Borrower and each of its Material Subsidiaries (i) is duly organized, validly existing and in good standing under the laws of its respective jurisdiction of formation, (ii) has all requisite corporate power to own its property and conduct its business as now conducted and as presently contemplated, and (iii) is in good standing and is duly authorized to do business in each jurisdiction in which its property or business as presently conducted or contemplated makes such qualification necessary, except where a failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

(b) Authorization. The execution, delivery and performance of its Loan Documents and the transactions contemplated hereby and thereby (i) are within the corporate authority of the Borrower and the Guarantor, (ii) have been duly authorized by all necessary corporate proceedings on the part of each of the Borrower and the Guarantor, (iii) do not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which any of the Borrower or the Guarantor or any of their Subsidiaries is subject or any judgment, order, writ, injunction, license or permit applicable to the Borrower, the Guarantor or any of their Subsidiaries so as to have a Material Adverse Effect, and (iv) do not conflict with any provision of the corporate charter or bylaws of the Borrower, the Guarantor or any Material Subsidiary or any agreement or other instrument binding upon the Borrower, the Guarantor or any of their Material Subsidiaries, except for those conflicts with any such agreement or instrument which could not reasonably be expected to have a Material Adverse Effect.

(c) Enforceability. The execution, delivery and performance of the Loan Documents by the Borrower and the Guarantor will result in valid and legally binding obligations of the Borrower and the Guarantor enforceable against them in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights generally and general principles of equity.

SECTION 6.2. GOVERNMENTAL AND OTHER APPROVALS. The execution, delivery and performance of the Loan Documents by the Borrower and the Guarantor and the consummation by the Borrower and the Guarantor of the transactions contemplated hereby and thereby do not require any approval or consent of, or filing with, any governmental agency or authority or other third party other than those already obtained and those required after the date hereof in connection with the Borrower's performance of the covenants contained in Sections 7, 8 and 9 hereof.

SECTION 6.3. TITLE TO PROPERTIES; LEASES. The Borrower and its Subsidiaries own all of the assets reflected in the consolidated balance sheet as at the Interim Balance Sheet Date or acquired since that date (except property and assets operated under Capital Leases or

sold or otherwise disposed of in the ordinary course of business since that date), subject to no Liens except Permitted Liens.

SECTION 6.4. FINANCIAL STATEMENTS; SOLVENCY.

- (a) There have been furnished to the Banks consolidated balance sheets of the Borrower and its Subsidiaries dated the Balance Sheet Date and consolidated statements of operations for the fiscal periods then ended, certified by the Accountants. In addition, there have been furnished to the Banks consolidated balance sheets of the Borrower and its Subsidiaries dated the Interim Balance Sheet Date and the related consolidated statements of operation for the fiscal quarter ending on the Interim Balance Sheet Date. All said balance sheets and statements of operations have been prepared in accordance with GAAP (but, in the case of any of such financial statements which are unaudited, only to the extent GAAP is applicable to interim unaudited reports), fairly present, in all material respects, the financial condition of the Borrower and its Subsidiaries on a consolidated basis as at the close of business on the dates thereof and the results of operations for the periods then ended, subject, in the case of unaudited interim financial statements, to changes resulting from audit and normal year-end adjustments and to the absence of complete footnotes. There are no contingent liabilities of the Borrower and its Subsidiaries involving material amounts, known to the officers of the Borrower or the Guarantor which have not been disclosed in said balance sheets and the related notes thereto or otherwise in writing to the Banks.
- (b) The Borrower and its Subsidiaries on a consolidated basis (both before and after giving effect to the transactions contemplated by this Agreement) are solvent (i.e., they have assets having a fair value in excess of the amount required to pay their probable liabilities on their existing debts as they become absolute and matured) and have, and expect to have, the ability to pay their debts from time to time incurred in connection therewith as such debts mature.

SECTION 6.5. NO MATERIAL CHANGES, ETC. Since the Balance Sheet Date, there have been no material adverse changes in the consolidated financial condition, business, assets or liabilities (contingent or otherwise) of the Borrower and its Subsidiaries, taken as a whole, other than changes in the ordinary course of business which have not had a Material Adverse Effect.

SECTION 6.6. FRANCHISES, PATENTS, COPYRIGHTS, ETC. The Borrower and each of its Subsidiaries possess all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of their business substantially as now conducted (other than those the absence of which would not have a Material Adverse Effect) without known conflict with any rights of others other than a conflict which would not have a Material Adverse Effect.

SECTION 6.7. LITIGATION. Except as set forth on Schedule 6.7 or in the Disclosure Documents, there are no actions, suits, proceedings or investigations of any kind pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its Subsidiaries before any court, tribunal or administrative agency or board which, either in any case or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

SECTION 6.8. NO MATERIALLY ADVERSE CONTRACTS, ETC. Neither the Borrower nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation which in the judgment of the Borrower's or such Subsidiary's officers has or could reasonably be expected in the future to have a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries is a party to any contract or agreement which in the judgment of the Borrower's or its Subsidiary's officers has or could reasonably be expected to have any Material Adverse Effect, except as otherwise reflected in adequate reserves as required by GAAP.

SECTION 6.9. COMPLIANCE WITH OTHER INSTRUMENTS, LAWS, ETC. Neither the Borrower nor any of its Subsidiaries is (a) violating any provision of its charter documents or by-laws or (b) violating any agreement or instrument to which any of them may be subject or by which any of them or any of their properties may be bound or any decree, order, judgment, or any statute, license, rule or regulation, in a manner which could (in the case of such agreements or such instruments) reasonably be expected to result in a Material Adverse Effect.

SECTION 6.10. TAX STATUS. The Borrower and its Subsidiaries have filed all federal, state, provincial and territorial income and all other tax returns, reports and declarations (or obtained extensions with respect thereto) required by applicable law to be filed by them (unless and only to the extent that the Borrower or such Subsidiary has set aside on its books provisions reasonably adequate for the payment of all unpaid and unreported taxes as required by GAAP); and have paid all taxes and other governmental assessments and charges (other than taxes, assessments and other governmental charges imposed by jurisdictions other than the United States, Canada or any political subdivision thereof which in the aggregate are not material to the financial condition, business or assets of the Borrower or such Subsidiary on an individual basis or of the Borrower and its Subsidiaries on a consolidated basis) that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith; and, as required by GAAP, have set aside on their books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. Except to the extent contested in the manner permitted in the preceding sentence, there are no unpaid taxes in any material amount claimed by the taxing authority of any jurisdiction to be due and owing by the Borrower or any Subsidiary, nor do the officers of the Borrower or any of its Subsidiaries know of any basis for any such claim.

SECTION 6.11. NO EVENT OF DEFAULT. No Default or Event of Default has occurred hereunder and is continuing.

SECTION 6.12. HOLDING COMPANY AND INVESTMENT COMPANY ACTS. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", as such terms are

defined in the Public Utility Holding Company Act of 1935; nor is any of them a "registered investment company", or an "affiliated company" or a "principal underwriter" of a "registered investment company", as such terms are defined in the Investment Company Act of 1940.

SECTION 6.13. ABSENCE OF FINANCING STATEMENTS, ETC. Except as permitted by Section 8.1 of this Agreement, there is no Indebtedness senior to the Obligations, and except for Permitted Liens, there are no Liens, or any effective financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry, or other public office, which purports to cover, affect or give notice of any present or possible future Lien on any assets or property of the Borrower or any of its Subsidiaries or right thereunder.

SECTION 6.14. EMPLOYEE BENEFIT PLANS.

SECTION 6.14.1. IN GENERAL. Each Employee Benefit Plan has been maintained and operated in compliance with the provisions of ERISA and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions. Promptly upon the request of any Bank or the Administrative Agent, the Borrower will furnish to the Administrative Agent the most recently completed annual report, Form 5500, with all required attachments, and actuarial statement required to be submitted under Section 103(d) of ERISA, with respect to each Guaranteed Pension Plan.

SECTION 6.14.2. TERMINABILITY OF WELFARE PLANS. Under each Employee Benefit Plan which is an employee welfare benefit plan within the meaning of Section 3(1) or Section 3(2)(B) of ERISA, no benefits are due unless the event giving rise to the benefit entitlement occurs prior to plan termination (except as required by Title I, Part 6 of ERISA). The Borrower or an ERISA Affiliate, as appropriate, may terminate each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower or such ERISA Affiliate without material liability to any Person.

SECTION 6.14.3. GUARANTEED PENSION PLANS. Each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of Section 302(f) of ERISA, or otherwise, has been timely made. No waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan. No liability to the PBGC (other than required insurance premiums, all of which have been paid) has been incurred by the Borrower or any ERISA Affiliate with respect to any Guaranteed Pension Plan (other than Terminated Plans) and there has not been any ERISA Reportable Event, or any other event or condition which presents a material risk of termination of any Guaranteed Pension Plan by the PBGC. Other than with respect to the Terminated Plans, based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of Section 4001 of ERISA did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose

the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities.

SECTION 6.14.4. MULTIEMPLOYER PLANS. Neither the Borrower nor any ERISA Affiliate has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under Section 4201 of ERISA or as a result of a sale of assets described in Section 4204 of ERISA. Neither the Borrower nor any ERISA Affiliate has been notified that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of Section 4241 or Section 4245 of ERISA or that any Multiemployer Plan intends to terminate or has been terminated under Section 4041A of ERISA.

SECTION 6.15. ENVIRONMENTAL COMPLIANCE. The Borrower and its Subsidiaries have taken all steps that they have deemed reasonably necessary to investigate the past and present condition and usage of the Real Property and the operations conducted by the Borrower and its Subsidiaries and, based upon such diligent investigation, have determined that, except as set forth on Schedule 6.15 or in the Disclosure Documents:

(a) Neither the Borrower, its Material Subsidiaries, nor any operator of their properties, is in violation, or alleged violation, of any judgment, decree, order, law, permit, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any applicable international, federal, state, provincial, territorial or local statute, regulation, ordinance, order or decree relating to health, safety, waste transportation or disposal, or the environment (the "Environmental Laws"), which violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Except with respect to any such matters that could not reasonably be expected to have a Material Adverse Effect, neither the Borrower nor any of its Material Subsidiaries has received notice from any third party including, without limitation: any federal, state, provincial, territorial or local governmental authority, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any hazardous waste, as defined by 42 U.S.C. Section 6903(5), any hazardous substances as defined by 42 U.S.C. Section 9601(14), any pollutant or contaminant as defined by 42 U.S.C. Section 9601(33) or any toxic substance, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws, excluding household hazardous waste ("Hazardous Substances"), which any one of them has generated, transported or disposed of, has been found at any site at which a federal, state, provincial, territorial or local agency or other third party has conducted or has ordered that the Borrower or any of its Material Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, legal or

administrative proceeding arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the Release of Hazardous Substances.

(c) Except for those occurrences or situations that could not reasonably be expected to have a Material Adverse Effect, (i) no portion of the Real Property or other assets of the Borrower and its Material Subsidiaries has been used for the handling, processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws; (ii) in the course of any activities conducted by the Borrower, its Material Subsidiaries, or operators of the Real Property or other assets of the Borrower and its Material Subsidiaries, no Hazardous Substances have been generated or are being used on such properties except in accordance with applicable Environmental Laws; (iii) there have been no unpermitted Releases or threatened Releases of Hazardous Substances on, upon, into or from the Real Property or other assets of the Borrower or its Material Subsidiaries; and (iv) any Hazardous Substances that have been generated on the Real Property or other assets of the Borrower or its Material Subsidiaries have been transported offsite only by carriers having an identification number issued by the EPA, treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are, to the Borrower's knowledge, operating in compliance with such permits and applicable Environmental Laws.

SECTION 6.16. DISCLOSURE. No representation or warranty made by the Borrower or the Guarantor in this Agreement or in any agreement, instrument, document, certificate, or financial statement furnished to the Banks or the Administrative Agent by or on behalf of or at the request of the Borrower and the Guarantor in connection with any of the transactions contemplated by the Loan Documents contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein, taken as a whole, not misleading in light of the circumstances in which they are made.

SECTION 6.17. PERMITS AND GOVERNMENTAL AUTHORITY. All permits (other than those the absence of which could not reasonably be expected to have a Material Adverse Effect) required for the construction and operation of all landfills currently owned or operated by the Borrower or any of its Material Subsidiaries have been obtained and remain in full force and effect and are not subject to any appeals or further proceedings or to any unsatisfied conditions that may allow material modification or revocation. Neither the Borrower nor any of its Subsidiaries, nor, to the knowledge of the Borrower, the holder of such permits is in violation of any such permits, except for any violation which could not reasonably be expected to have a Material Adverse Effect.

SECTION 7. AFFIRMATIVE COVENANTS OF THE BORROWER. The Borrower agrees that, so long as any Obligation or any Letter of Credit is outstanding or the Banks have any obligation to make Loans, or any Issuing Bank has any obligation to issue, extend or renew any Letters of Credit hereunder, or the Banks have any obligations to reimburse any Issuing Bank for drawings honored under any Letter of Credit, it shall, and shall cause its Subsidiaries to, comply with the following covenants:

SECTION 7.1. PUNCTUAL PAYMENT. The Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, all Reimbursement Obligations, fees and other amounts provided for in this Agreement and the other Loan Documents, all in accordance with the terms of this Agreement and such other Loan Documents.

SECTION 7.2. MAINTENANCE OF U.S. OFFICE. The Borrower will maintain its chief executive offices at Houston, Texas, or at such other place in the United States of America as the Borrower shall designate upon 30 days' prior written notice to the Administrative Agent.

SECTION 7.3. RECORDS AND ACCOUNTS. The Borrower will, and will cause each of its Subsidiaries to, keep true and accurate records and books of account in which full, true and correct entries will be made in accordance with GAAP and with the requirements of all regulatory authorities and maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties, all other contingencies, and all other proper reserves.

SECTION 7.4. FINANCIAL STATEMENTS, CERTIFICATES AND INFORMATION. The Borrower will deliver to the Banks:

(a) as soon as practicable, but, in any event not later than 100 days after the end of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such year, consolidated statements of cash flows, and the related consolidated statements of operations, each setting forth in comparative form the figures for the previous fiscal year, all such consolidated financial statements to be in reasonable detail, prepared, in accordance with GAAP and, with respect to the consolidated financial statements, certified by Ernst & Young LLP or by other nationally recognized independent auditors selected by the Borrower and reasonably satisfactory to the Administrative Agent (the "Accountants"). In addition, simultaneously therewith, the Borrower shall provide the Banks with a written statement from such Accountants to the effect that they have read a copy of this Agreement, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such Accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default;

(b) as soon as practicable, but in any event not later than 60 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, copies of the consolidated balance sheet and statement of operations of the Borrower and its Subsidiaries as at the end of such quarter, subject to year-end adjustments, and the related consolidated statement of cash flows, all in reasonable detail and prepared in accordance with GAAP (to the extent GAAP is applicable to interim unaudited financial statements) with a certification by the principal financial or accounting officer of the Borrower (the "CFO or the CAO") that the consolidated financial statements are prepared in accordance with GAAP (to the extent GAAP is applicable to interim unaudited financial statements) and fairly present, in all material respects, the consolidated financial condition of the Borrower and its Subsidiaries on a consolidated basis as at the close of business

on the date thereof and the results of operations for the period then ended, subject to year-end adjustments and the exclusion of detailed footnotes;

(c) simultaneously with the delivery of the financial statements referred to in (a) and (b) above, a certificate in the form of Exhibit C hereto (the "Compliance Certificate") signed by the CFO or the CAO or the Borrower's corporate treasurer, stating that the Borrower and its Subsidiaries are in compliance with the covenants contained in Sections 7, 8 and 9 hereof as of the end of the applicable period and setting forth in reasonable detail computations evidencing such compliance with respect to the covenants contained in Section 9 hereof and that no Default or Event of Default exists, provided that if the Borrower shall at the time of issuance of such Compliance Certificate or at any other time obtain knowledge of any Default or Event of Default, the Borrower shall include in such certificate or otherwise deliver forthwith to the Banks a certificate specifying the nature and period of existence thereof and what action the Borrower proposes to take with respect thereto;

(d) promptly following, the filing or mailing thereof, copies of all material of a financial nature filed with the Securities and Exchange Commission or sent to the Borrower's and its Subsidiaries' stockholders generally; and

(e) from time to time such other financial data and other information as the Banks may reasonably request.

The Borrower hereby authorizes each Bank to disclose any information obtained pursuant to this Agreement to all appropriate governmental regulatory authorities where required by law; provided, however, this authorization shall not be deemed to be a waiver of any rights to object to the disclosure by the Banks of any such information which the Borrower has or may have under the federal Right to Financial Privacy Act of 1978, as in effect from time to time, except as to matters specifically permitted therein.

SECTION 7.5. EXISTENCE AND CONDUCT OF BUSINESS. The Borrower will, and will cause each Material Subsidiary, to do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises; and effect and maintain its foreign qualifications (except where the failure of the Borrower or any Material Subsidiary to remain so qualified could not reasonably be expected to have a Material Adverse Effect), licensing, domestication or authorization, except as any of the foregoing may be terminated by its Board of Directors in the exercise of its reasonable judgment; provided that such termination could not reasonably be expected to have a Material Adverse Effect. The Borrower will not, and will cause its Subsidiaries not to, become obligated under any contract or binding arrangement which, at the time it was entered into, could reasonably be expected to have a Material Adverse Effect. The Borrower will, and will cause each Subsidiary to, continue to engage primarily in any of the businesses now conducted by the Borrower and its Subsidiaries and in related businesses, and any additional businesses acquired pursuant to the terms of Section 8.4(a) hereunder.

SECTION 7.6. MAINTENANCE OF PROPERTIES. The Borrower will, and will cause its Material Subsidiaries to, cause all material properties used or useful in the conduct of their businesses to be maintained and kept in good condition, repair and working order (ordinary wear and tear excepted) and supplied with all necessary equipment and cause to

be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower and its Material Subsidiaries may be necessary so that the businesses carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this section shall prevent the Borrower or any of its Subsidiaries from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in the judgment of the Borrower or such Subsidiary, desirable in the conduct of its or their business and which could not reasonably be expected to have a Material Adverse Effect.

SECTION 7.7. INSURANCE. The Borrower will, and will cause its Subsidiaries to, maintain with financially sound and reputable insurance companies (including captive insurance companies), funds or underwriters, insurance of the kinds, covering the risks (other than risks arising out of or in any way connected with personal liability of any officers and directors thereof) and in the relative proportionate amounts usually carried by reasonable and prudent companies conducting businesses similar to that of the Borrower and its Subsidiaries, in amounts substantially similar to the existing coverage policies maintained by the Borrower and its Subsidiaries, copies of which have been provided to the Administrative Agent. In addition, the Borrower will furnish from time to time, upon the Administrative Agent's request, a summary of the insurance coverage of the Borrower and its Subsidiaries, which summary shall be in form and substance satisfactory to the Administrative Agent and, if requested by the Administrative Agent, will furnish to the Administrative Agent copies of the applicable policies.

SECTION 7.8. TAXES. The Borrower will, and will cause its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its real properties, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies, which if unpaid might by law become a Lien upon any of its property; provided, however, that any such tax, assessment, charge, levy or claim need not be paid if the failure to do so (either individually, or in the aggregate for all such failures) could not reasonably be expected to have a Material Adverse Effect and the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto as required by GAAP; and provided, further, that the Borrower or such Subsidiary will pay all such taxes, assessments, charges, levies or claims prior to the foreclosure on any Lien which may have attached as security therefor.

SECTION 7.9. INSPECTION OF PROPERTIES, BOOKS AND CONTRACTS. The Borrower will, and will cause its Material Subsidiaries to, permit the Administrative Agent or any Bank or any of their designated representatives, upon reasonable notice, to visit and inspect any of the properties of the Borrower and its Material Subsidiaries, to examine the books of account of the Borrower and its Material Subsidiaries, or contracts (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Borrower and its Material Subsidiaries with, and to be advised as to the same by, their officers, all at such times and intervals as may be reasonably requested.

SECTION 7.10. COMPLIANCE WITH LAWS, CONTRACTS, LICENSES AND PERMITS; MAINTENANCE OF MATERIAL LICENSES AND PERMITS. The Borrower will, and will cause each Subsidiary to, (i) comply with the provisions of its charter documents and by-laws;

(ii) comply with all agreements and instruments by which it or any of its properties may be bound except where noncompliance could not reasonably be expected to have a Material Adverse Effect; (iii) comply with all applicable laws and regulations (including Environmental Laws), decrees, orders, judgments, licenses and permits, including, without limitation, all environmental permits ("Applicable Requirements"), except where noncompliance with such Applicable Requirements could not reasonably be expected to have a Material Adverse Effect; (iv) maintain all operating permits for all landfills now owned or hereafter acquired, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and (v) dispose of hazardous waste only at licensed disposal facilities operating, to the Borrower's knowledge, in compliance with Environmental Laws, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. If at any time any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrower or any Material Subsidiary may fulfill any of its obligations hereunder or under any other Loan Document, the Borrower will immediately take or cause to be taken all reasonable steps within the power of the Borrower or such Material Subsidiary to obtain such authorization, consent, approval, permit or license and furnish the Banks with evidence thereof.

SECTION 7.11. ENVIRONMENTAL INDEMNIFICATION. The Borrower covenants and agrees that it will indemnify and hold the Banks, the Issuing Banks and the Administrative Agent and their respective affiliates, and each of the representatives, agents and officers of each of the foregoing, harmless from and against any and all claims, expense, damage, loss or liability incurred by the Banks, the Issuing Banks or the Administrative Agent (including all reasonable costs of legal representation incurred by the Banks, the Issuing Banks or the Administrative Agent) relating to (a) any Release or threatened Release of Hazardous Substances on the Real Property; (b) any violation of any Environmental Laws or Applicable Requirements with respect to conditions at the Real Property or other assets of the Borrower or its Subsidiaries, or the operations conducted thereon; or (c) the investigation or remediation of offsite locations at which the Borrower, any of its Subsidiaries, or their predecessors are alleged to have directly or indirectly Disposed of Hazardous Substances. It is expressly acknowledged by the Borrower that this covenant of indemnification shall survive the payment of the Loans and Reimbursement Obligations and satisfaction of all other Obligations hereunder and shall inure to the benefit of the Banks, the Issuing Banks, the Administrative Agent and their affiliates, successors and assigns.

SECTION 7.12. FURTHER ASSURANCES. The Borrower and the Guarantor will cooperate with the Administrative Agent and execute such further instruments and documents as the Administrative Agent shall reasonably request to carry out to the Majority Banks' satisfaction the transactions contemplated by this Agreement.

SECTION 7.13. NOTICE OF POTENTIAL CLAIMS OR LITIGATION. The Borrower shall deliver to the Banks, within 30 days of receipt thereof, written notice of the initiation of any action, claim, complaint, or any other notice of dispute or litigation against the Borrower or any of its Subsidiaries wherein the asserted, demanded or alleged liability is in excess of \$25,000,000 or which questions the validity or enforceability of any Loan Document, together with a copy of each such complaint or other notice received by the Borrower or any of its Subsidiaries if requested by the Administrative Agent.

SECTION 7.14. NOTICE OF CERTAIN EVENTS CONCERNING INSURANCE AND ENVIRONMENTAL CLAIMS.

(a) The Borrower will provide the Banks with written notice as to any material cancellation or material adverse change in any insurance of the Borrower or any of its Material Subsidiaries within ten (10) Business Days after the Borrower's or any of its Material Subsidiary's receipt of any notice (whether formal or informal) of such material cancellation or material change by any of its insurers.

(b) The Borrower will promptly, and in any event within ten (10) Business Days of the Borrower's obtaining knowledge thereof, notify the Banks in writing of any of the following events:

(i) upon the Borrower's or any Material Subsidiary's obtaining knowledge of any violation of any Environmental Law regarding the Real Property or the Borrower's or any Subsidiary's operations which violation could reasonably be expected to have a Material Adverse Effect;

(ii) upon the Borrower's or any Material Subsidiary's obtaining knowledge of any potential or known Release, or threat of Release, of any Hazardous Substance at, from, or into the Real Property which could reasonably be expected to have a Material Adverse Effect;

(iii) upon the Borrower's or any Material Subsidiary's receipt of any notice of any material violation of any Environmental Law or of any Release or threatened Release of Hazardous Substances, including a notice or claim of liability or potential responsibility from any third party (including any federal, state, provincial, territorial or local governmental officials) and including notice of any formal inquiry, proceeding, demand, investigation or other action with regard to (A) the Borrower's, any Material Subsidiary's or any Person's operation of the Real Property, (B) contamination on, from, or into the Real Property, or (C) investigation or remediation of offsite locations at which the Borrower, any Material Subsidiary, or its predecessors are alleged to have directly or indirectly Disposed of Hazardous Substances, and with respect to which the asserted, demanded or alleged liability associated therewith exceeds \$35,000,000; or

(iv) upon the Borrower's or any Material Subsidiary's obtaining knowledge that any expense or loss which individually or in the aggregate exceeds \$35,000,000 has been incurred by such governmental authority in connection with the assessment, containment, removal or remediation of any Hazardous Substances with respect to which the Borrower or any Material Subsidiary has been alleged to be liable by such governmental authority or for which a Lien may be imposed on the Real Property by such governmental authority.

SECTION 7.15. NOTICE OF DEFAULT. The Borrower will promptly notify the Banks in writing of the occurrence of any Default or Event of Default. If any Person shall give any

notice or take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Agreement or any other note, evidence of indebtedness, indenture or other obligation evidencing indebtedness in excess of \$25,000,000 as to which the Borrower or any of its Material Subsidiaries is a party or obligor, whether as principal or surety, the Borrower shall promptly upon obtaining actual knowledge thereof give written notice thereof to the Banks, describing the notice of action and the nature of the claimed default.

SECTION 7.16. USE OF PROCEEDS. The proceeds of the Loans shall be used for general corporate purposes, to provide working capital, to provide letters of credit and to refinance existing Indebtedness of the Borrower and its Subsidiaries. No proceeds of the Loans shall be used in any way that will violate Regulations U or X of the Board of Governors of the Federal Reserve System.

SECTION 7.17. CERTAIN TRANSACTIONS. Except as disclosed in the Disclosure Documents prior to the Effective Date, and except for arm's length transactions pursuant to which the Borrower or any Subsidiary makes payments in the ordinary course of business upon terms no less favorable than the Borrower or such Subsidiary could obtain from third parties, none of the officers, directors, or employees or any other affiliate of the Borrower or any Subsidiary are presently or shall be a party to any transaction with the Borrower or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower or any Subsidiary, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

SECTION 8. CERTAIN NEGATIVE COVENANTS OF THE BORROWER. The Borrower agrees that, so long as any Obligation or Letter of Credit is outstanding or the Banks have any obligation to make Loans or any Issuing Bank has any obligation to issue, extend or renew any Letters of Credit hereunder, or the Banks have any obligation to reimburse any Issuing Bank for drawings honored under any Letter of Credit, it shall, and shall cause its Subsidiaries to, comply with the following covenants:

SECTION 8.1. RESTRICTIONS ON INDEBTEDNESS. Neither the Borrower nor any of its Subsidiaries shall become or be a guarantor or surety of, or otherwise create, incur, assume, or be or remain liable, contingently or otherwise, with respect to any Indebtedness, or become or be responsible in any manner (whether by agreement to purchase any obligations, stock, assets, goods or services, or to supply or advance any funds, assets, goods or services or otherwise) with respect to any Indebtedness of any other Person (other than the Borrower or any of its Subsidiaries), or incur any Indebtedness other than:

(a) Indebtedness arising under this Agreement or the other Loan Documents;

(b) (i) Indebtedness incurred by the Borrower or any Subsidiary with respect to any suretyship or performance bond incurred in the ordinary course of its business and undrawn landfill closure bonds;

(ii) Guarantees of any of its Subsidiaries' obligations to governmental authorities in lieu of the posting of any landfill closure bonds;

(c) Unsecured Indebtedness of the Borrower (and any guarantee thereof by the Guarantor), including commercial paper and the Five Year Revolving Credit Facility, which is pari passu or subordinated to the Obligations; provided that there does not exist a Default or Event of Default at the time of the incurrence of such Indebtedness and no Default or Event of Default would be created by the incurrence of such Indebtedness;

(d) Indebtedness of the Guarantor and the Borrower's Subsidiaries listed in Schedule 8.1(d) and any extension, renewal or refinancing by the Guarantor or such Subsidiary of such Indebtedness, provided that the terms and conditions of any such extension, renewal or refinancing are substantially the same as the terms and conditions in effect on the Effective Date, or are more favorable to the Guarantor or such Subsidiary; and

(e) (i) Other Indebtedness of the Borrower's Subsidiaries (other than of the Guarantor), (ii) secured Indebtedness of the Borrower, (iii) Indebtedness with respect to drawn landfill closure bonds, and (iv) Indebtedness with respect to Permitted Receivables Transactions; provided that the aggregate amount of all such Indebtedness in this Section 8.1(e) shall not exceed 15% of Consolidated Tangible Assets at any time.

SECTION 8.2. RESTRICTIONS ON LIENS. The Borrower will not, and will cause its Subsidiaries not to, create or incur or suffer to be created or incurred or to exist any Lien of any kind upon any property or assets of any character, whether now owned or hereafter acquired, or upon the income or profits therefrom; or transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; or acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; or suffer to exist for a period of more than 30 days after the same shall have been incurred any Indebtedness or claim or demand against it which if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or sell, assign, pledge or otherwise transfer any accounts, contract rights, general intangibles or chattel paper, with or without recourse, except for Permitted Liens.

The Borrower and the Guarantor covenant and agree that if either of them or any of their Subsidiaries shall create or assume any Lien upon any of their respective properties or assets, whether now owned or hereafter acquired, other than Permitted Liens (unless prior written consent shall have been obtained from the Banks), the Borrower and the Guarantor will make or cause to be made effective provision whereby the Obligations and the Guaranteed Obligations will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured so long as such other Indebtedness shall be so secured; provided, that the covenants of the Borrower and the Guarantor contained in this sentence shall only be in effect for so long as the Borrower or the Guarantor shall be similarly obligated under any other Indebtedness; provided, further, that an Event of Default shall occur for so long as such other Indebtedness becomes secured

notwithstanding any actions taken by the Borrower or the Guarantor to ratably secure the Obligations and the Guaranteed Obligations hereunder.

SECTION 8.3. RESTRICTIONS ON INVESTMENTS. Except to the extent provided in Section 8.4, neither the Borrower nor any Subsidiary may make or permit to exist or to remain outstanding any Investment, unless both before and after giving effect thereto (i) the Borrower and its Subsidiaries are in compliance with the covenants set forth in Sections 7, 8 and 9 hereof; (ii) there does not exist a Default or Event of Default and no Default or Event of Default would be created by the making of such Investment; and (iii) the aggregate amount of all Investments (excluding Investments in (A) direct obligations of the United States of America or any agency thereof having maturities of less than one (1) year, (B) certificates of deposit having maturities of less than one (1) year, issued by commercial banks in the United States or Canada having capital and surplus of not less than \$100,000,000, and (C) Subsidiaries), does not exceed 15% of Consolidated Tangible Assets; provided, that the ability of the Borrower and its Subsidiaries to incur any Indebtedness in connection with any Investment permitted by this Section 8.3 shall be governed by Section 8.1.

SECTION 8.4. MERGERS, CONSOLIDATIONS, SALES.

(a) Neither the Borrower nor any Subsidiary shall be a party to any merger, consolidation or exchange of stock unless the Borrower shall be the surviving entity with respect to any such transaction to which the Borrower is a party and the Guarantor shall be the survivor of any merger with any other Subsidiary or a Subsidiary shall be the surviving entity (and continue to be a Subsidiary) with respect to any such transactions to which one or more Subsidiaries is a party (and the conditions set forth below are satisfied), or purchase or otherwise acquire all or substantially all of the assets or stock of any class of, or any partnership, membership or joint venture or other interest in, any other Person except as otherwise provided in Section 8.3 or this Section 8.4. Notwithstanding the foregoing, the Borrower and its Subsidiaries may purchase or otherwise acquire all or substantially all of the assets or stock of any class of, or joint venture or other interest in, any Person if the following conditions have been met: (i) the proposed transaction will not otherwise create a Default or an Event of Default hereunder; and (ii) the business to be acquired predominantly involves (A) the collection, transfer, hauling, disposal or recycling of solid waste or thermal soil remediation, or (B) other lines of businesses currently engaged in, or related, associated, complementary or supplementary thereto, whether from an operational, business, financial, technical or administrative standpoint; provided that the Borrower or its Subsidiaries may purchase or otherwise acquire all or substantially all of the assets or stock of any class of, or any partnership, membership or joint venture or other interest in, any Persons in unrelated businesses, not to exceed an aggregate amount of \$100,000,000 during the first year following the Effective Date, and not to exceed a total aggregate amount of \$200,000,000 during the term of this Agreement. Notwithstanding anything herein to the contrary, the ability of the Borrower and its Subsidiaries to incur any Indebtedness in connection with any transaction permitted pursuant to this Section 8.4 shall be governed by Section 8.1.

(b) Neither the Borrower nor any Subsidiary shall sell, transfer, convey or lease any assets or group of assets, including the sale or transfer of any property owned by the Borrower or any Subsidiary in order then or thereafter to lease such property or lease other property which the Borrower or such Subsidiary intends to use for substantially the same purpose as the property being sold or transferred, or sell or assign, with or without recourse, any receivables, except (i) transfers of real or personal property among Subsidiaries of the Borrower, (ii) so long as no Default or Event of Default has occurred and is continuing, or would result therefrom, sales of assets or pursuant to a sale-leaseback transaction, provided that any net cash proceeds from any such sale or sale-leaseback shall, within 180 days, either be used to pay down outstanding Loans under this Agreement and outstanding loans under the Five Year Revolving Credit Facility pro rata, or be reinvested by such Person in assets of the business of the Borrower and its Subsidiaries, used for working capital, invested in Investments in accordance with the provisions of Section 8.3 or used for other general corporate purposes, (iii) sales of accounts receivable (and contract rights, general intangibles or chattel paper related thereto) more than sixty (60) days past due sold or assigned in the ordinary course of collecting past due accounts, or (iv) pursuant to a Permitted Receivables Transaction.

SECTION 8.5. RESTRICTED DISTRIBUTIONS AND REDEMPTIONS. Neither the Borrower nor any of its Subsidiaries will (a) declare or pay any Distributions, or (b) redeem, convert, retire or otherwise acquire shares of any class of its capital stock (other than in connection with a merger permitted by Section 8.4 hereof or conversion into another form of equity of any preferred shares of the Borrower existing as of the Effective Date pursuant to the terms thereof); unless at the time of such Distribution or redemption no Default or Event of Default exists or would be created hereunder. Notwithstanding the above, any Subsidiary may make Distributions to the Borrower and the Borrower agrees that neither the Borrower nor any Material Subsidiary will enter into any agreement restricting Distributions from such Material Subsidiary to the Borrower.

SECTION 8.6. EMPLOYEE BENEFIT PLANS. None of the Borrower, any of its Subsidiaries, or any ERISA Affiliate will:

(a) engage in any "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975 of the Code which could result in a material liability for the Borrower on a consolidated basis; or

(b) permit any Guaranteed Pension Plan to incur an "accumulated funding deficiency", as such term is defined in Section 302 of ERISA, whether or not such deficiency is or may be waived; or

(c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a lien or encumbrance on the assets of the Borrower or the Guarantor pursuant to Section 302(f) or Section 4068 of ERISA; or

(d) permit or take any action which would result in the aggregate benefit liabilities (within the meaning of Section 4001 of ERISA), other than with respect to the Terminated Plans, of all Guaranteed Pension Plans exceeding the

value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities.

The Borrower and its Subsidiaries will (i) promptly upon the request of any Bank or the Administrative Agent, furnish to the Banks a copy of the most recent actuarial statement required to be submitted under Section 103(d) of ERISA and Annual Report, Form 5500, with all required attachments, in respect of each Guaranteed Pension Plan and (ii) promptly upon receipt or dispatch, furnish to the Banks any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under Sections 302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under Sections 4041A, 4202, 4219, 4242 or 4245 of ERISA.

SECTION 9. FINANCIAL COVENANTS OF THE BORROWER. The Borrower agrees that, so long as any Obligation or Letter of Credit is outstanding or the Banks have any obligation to make Loans, or any Issuing Bank has any obligation to issue, extend or renew any Letter of Credit hereunder, or the Banks have any obligation to reimburse any Issuing Bank for drawings honored under any Letter of Credit, it shall comply with the following covenants:

SECTION 9.1. INTEREST COVERAGE RATIO. As of the end of any fiscal quarter of the Borrower, the Borrower will not permit the ratio of (a) EBIT for the four fiscal quarters then ending to (b) Consolidated Total Interest Expense for such period to be less than the applicable ratio set forth in the table below:

FISCAL
QUARTER(s)
ENDING:
RATIO: ---

-- -----
6/30/02 -
12/31/02
2.50:1.00
3/31/03
and
thereafter
3.00:1.00

SECTION 9.2. TOTAL DEBT TO EBITDA. As of the end of any fiscal quarter of the Borrower, the Borrower will not permit the ratio of (a) Total Debt to (b) EBITDA for the four fiscal quarters then ending to exceed 3.00:1.00.

SECTION 9.3. MINIMUM NET WORTH. The Borrower will not permit Consolidated Net Worth at any time to be less than \$3,500,000,000, plus 75% of cumulative positive Consolidated Net Income for each fiscal quarter, beginning with the fiscal quarter ended March 31, 2001.

SECTION 10. CONDITIONS PRECEDENT.

SECTION 10.1. CONDITIONS TO EFFECTIVENESS. The effectiveness of this Agreement and the obligations of the Banks to make any Loans and of any Issuing Bank to issue Letters of Credit and of the Banks to participate in Letters of Credit and otherwise be bound by the terms of this Agreement shall be subject to the satisfaction of each of the following conditions precedent:

SECTION 10.1.1. CORPORATE ACTION. All corporate action necessary for the valid execution, delivery and performance by the Borrower and the Guarantor of the Loan Documents shall have been duly and effectively taken, and evidence thereof certified by authorized officers of the Borrower and the Guarantor and satisfactory to the Administrative Agent shall have been provided to the Banks.

SECTION 10.1.2. LOAN DOCUMENTS, ETC. Each of the Loan Documents and other documents listed on the closing agenda shall have been duly and properly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect in a form satisfactory to the Majority Banks.

SECTION 10.1.3. CERTIFIED COPIES OF CHARTER DOCUMENTS. The Banks shall have received from each of the Borrower and the Guarantor, certified by a duly authorized officer of such Person to be true and complete on the Effective Date, (a) its charter or other incorporation documents, (b) its by-laws and (c) good standing certificates and foreign qualifications.

SECTION 10.1.4. INCUMBENCY CERTIFICATE. The Banks shall have received an incumbency certificate, dated as of the Effective Date, signed by duly authorized officers of the Borrower and the Guarantor giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign the Loan Documents on behalf of the Borrower and the Guarantor; (b) to make Syndicated Loan Requests and Letter of Credit Requests; (c) to make Competitive Bid Quote Requests; and (d) to give notices and to take other action on the Borrower's or the Guarantor's behalf under the Loan Documents.

SECTION 10.1.5. CERTIFICATES OF INSURANCE. The Administrative Agent shall have received a certificate of insurance from an independent insurance broker dated as of the Effective Date, or within 15 days prior thereto, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance coverage of the Borrower and its Subsidiaries.

SECTION 10.1.6. OPINION OF COUNSEL. The Banks shall have received a favorable legal opinion from the deputy general counsel to the Borrower and the Guarantor addressed to the Banks, dated the Effective Date, in form and substance satisfactory to the Administrative Agent.

SECTION 10.1.7. SATISFACTORY FINANCIAL CONDITION. Other than as disclosed in the Disclosure Documents, no material adverse change shall have occurred in the financial condition, results of operations, business, properties or prospects of the Borrower and its Subsidiaries, taken as a whole, since the Balance Sheet Date.

SECTION 10.1.8. PAYMENT OF CLOSING FEES. The Borrower shall have paid the agreed upon closing fees to the Administrative Agent for the account of the Banks

SECTION 10.1.9. TERMINATION OF THE 364 DAY LOAN AGREEMENT.

The 364 Day Loan Agreement, dated as of June 29, 2001, among the Borrower, the Guarantor and certain of the Banks shall be paid in full and terminated.

SECTION 10.1.10. CLOSING CERTIFICATE. The Borrower shall have delivered to the Administrative Agent a certificate, dated as of the Effective Date, stating that, as of such date (a) the representations and warranties set forth herein or in any other Loan Document are true and correct, and (b) no Default or Event of Default has occurred and is continuing.

SECTION 11. CONDITIONS TO ALL LOANS. The obligations of the Banks to make or continue for an additional Interest Period in accordance with Section 2.7 any Loan and the obligation of any Issuing Bank to issue, extend, or renew any Letter of Credit at the time of and subsequent to the Effective Date is subject to the following conditions precedent:

SECTION 11.1. REPRESENTATIONS TRUE. Each of the representations and warranties of the Borrower and the Guarantor (as applicable) contained in this Agreement or in any document or instrument delivered pursuant to or in connection with this Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan or the issuance, extension, or renewal of any Letter of Credit, as applicable, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Agreement and changes occurring in the ordinary course of business which either individually or in the aggregate do not result in a Material Adverse Effect, and to the extent that such representations and warranties relate expressly and solely to an earlier date).

SECTION 11.2. PERFORMANCE; NO EVENT OF DEFAULT. The Borrower shall have performed and complied with all terms and conditions herein required to be performed or complied with by it prior to or at the time of the making of any Loan the issuance, extension or renewal of any Letter of Credit, and at the time of the making of any Loan or the issuance, renewal or extension of any Letter of Credit, there shall exist no Default or Event of Default or condition which would result in a Default or an Event of Default upon consummation of such Loan or issuance, extension, or renewal of any Letter of Credit, as applicable. Each request for a Loan, or for issuance, extension or renewal of a Letter of Credit shall constitute certification by the Borrower that the conditions specified in Sections 11.1 and 11.2 will be duly satisfied on the date of such Loan or Letter of Credit issuance, extension or renewal.

SECTION 11.3. NO LEGAL IMPEDIMENT. No change shall have occurred in any law or regulations thereunder or interpretations thereof which in the reasonable opinion of the Banks would make it illegal for the Banks to make Loans, for any Issuing Bank to issue, extend or renew, or the Banks to participate in, Letters of Credit hereunder.

SECTION 11.4. GOVERNMENTAL REGULATION. The Banks shall have received from the Borrower and its Subsidiaries such statements in substance and form reasonably satisfactory to the Banks as they shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System or the Office of the Superintendent of Financial Institutions.

SECTION 11.5. PROCEEDINGS AND DOCUMENTS. All proceedings in connection with the transactions contemplated by this Agreement and all documents incident thereto shall have been delivered to the Banks as of the date of the making of any extension of credit in substance and in form satisfactory to the Banks, including without limitation a

Syndicated Loan Request in the form attached hereto as Exhibit A or a Letter of Credit Request in the form attached hereto as Exhibit B and the Banks shall have received all information and such counterpart originals or certified or other copies of such documents as the Banks may reasonably request.

SECTION 12. EVENTS OF DEFAULT; ACCELERATION; TERMINATION OF COMMITMENT.

SECTION 12.1. EVENTS OF DEFAULT AND ACCELERATION. If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice and/or lapse of time, "Defaults") shall occur:

(a) if the Borrower shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) if the Borrower shall fail to pay any interest or fees or other amounts owing hereunder (other than those specified in subsection (a) above) within five (5) Business Days after the same shall become due and payable whether at the Maturity Date or any accelerated date of maturity or at any other date fixed for payment;

(c) if the Borrower shall fail to comply with any of the covenants contained in Sections 7.4, 7.5, 7.15, 7.16, 8 and 9 hereof;

(d) if the Borrower shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified in subsections (a), (b), and (c) above) and such failure shall not be remedied within 30 days after written notice of such failure shall have been given to the Borrower by the Administrative Agent or any of the Banks;

(e) if any representation or warranty contained in this Agreement or in any document or instrument delivered pursuant to or in connection with this Agreement shall prove to have been false in any material respect upon the date when made or repeated;

(f) if the Borrower or any of its Subsidiaries shall fail to pay when due, or within any applicable period of grace, any Indebtedness or Swap Obligation in an aggregate amount greater than \$50,000,000, or fail to observe or perform any material term, covenant or agreement contained in any one or more agreements by which it is bound, evidencing or securing any Indebtedness or Swap Obligation in an aggregate amount greater than \$50,000,000 for such period of time as would permit, or would have permitted (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof or terminate its commitment with respect thereto;

(g) if the Borrower, the Guarantor or any Material Subsidiary makes an assignment for the benefit of creditors, or admits in writing its inability to pay or generally fails to pay its debts as they mature or become due, or petitions or

applies for the appointment of a trustee or other custodian, liquidator or receiver of the Borrower, the Guarantor or any Material Subsidiary, or of any substantial part of the assets of the Borrower, the Guarantor or any Material Subsidiary or commences any case or other proceeding relating to the Borrower, the Guarantor or any Material Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or takes any action to authorize or in furtherance of any of the foregoing, or if any such petition or application is filed or any such case or other proceeding is commenced against the Borrower, the Guarantor or any Material Subsidiary or the Borrower, the Guarantor or any Material Subsidiary indicates its approval thereof, consent thereto or acquiescence therein;

(h) if a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or the Guarantor or any Material Subsidiary bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of the Borrower or the Guarantor or any Material Subsidiary in an involuntary case under federal bankruptcy laws of any jurisdiction as now or hereafter constituted;

(i) if there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty days, whether or not consecutive, any final judgment against the Borrower or any Subsidiary which, with other outstanding final judgments against the Borrower and its Subsidiaries exceeds in the aggregate \$25,000,000 after taking into account any undisputed insurance coverage;

(j) if, with respect to any Guaranteed Pension Plan, an ERISA Reportable Event shall have occurred and the Banks shall have determined in their reasonable discretion that such event reasonably could be expected to result in liability of the Borrower or any Subsidiary to the PBGC or the Plan in an aggregate amount exceeding \$25,000,000 and such event in the circumstances occurring reasonably could constitute grounds for the partial or complete termination of such Plan by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer such Plan; or a trustee shall have been appointed by the appropriate United States District Court to administer such Plan; or the PBGC shall have instituted proceedings to terminate such Plan;

(k) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Banks, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower, the Guarantor, or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof; or

(l) if any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) shall have acquired

beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act) of 25% or more of the outstanding shares of common voting stock of the Borrower; or during any period of twelve consecutive calendar months, individuals who were directors of the Borrower on the first day of such period (together with any new directors whose election by such board or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) shall cease to constitute a majority of the board of directors of the Borrower;

then, and in any such event, so long as the same may be continuing, the Administrative Agent may, and upon the request of the Majority Banks shall, by notice in writing to the Borrower, declare all amounts owing with respect to this Agreement, and the other Loan Documents and all Reimbursement Obligations to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest, notice of intent to accelerate, notice of acceleration to the extent permitted by law or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in Section 12.1(g) or 12.1(h) with respect to the Borrower or the Guarantor, all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Administrative Agent or any Bank. Upon demand by the Majority Banks after the occurrence of any Event of Default, the Borrower shall immediately provide to the Administrative Agent cash in an amount equal to the aggregate Maximum Drawing Amount to be held by the Administrative Agent as collateral security for the Reimbursement Obligations.

SECTION 12.2. TERMINATION OF COMMITMENTS. If any Event of Default pursuant to Sections 12.1(g) or 12.1(h) hereof shall occur with respect to the Borrower or the Guarantor, any unused portion of the Total Commitment hereunder shall forthwith terminate and the Banks and the Issuing Banks shall be relieved of all obligations to make Loans or to issue, extend or renew Letters of Credit hereunder; or if any other Event of Default shall occur, the Majority Banks may by notice to the Borrower terminate the unused portion of the Total Commitment hereunder, and, upon such notice being given, such unused portion of the Total Commitment hereunder shall terminate immediately and the Banks and the Issuing Banks shall be relieved of all further obligations to make Loans or to issue, extend or renew Letters of Credit hereunder. No termination of any portion of the Total Commitment hereunder shall relieve the Borrower of any of its existing Obligations to the Banks, the Issuing Banks or the Administrative Agent hereunder or elsewhere.

SECTION 12.3. REMEDIES. In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Banks shall have accelerated the maturity of the Loans and other Obligations pursuant to Section 12.1, each Bank, upon notice to the other Banks, if owed any amount with respect to the Loans or the Reimbursement Obligations, may proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Bank are evidenced, including, without limitation, as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise,

proceed to enforce the payment thereof or any legal or equitable right of such Bank, any recovery being subject to the terms of Section 29 hereof. No remedy herein conferred upon any Bank or the Administrative Agent or the holder of any Note is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

SECTION 13. SETOFF. Regardless of the adequacy of any collateral, during the continuance of an Event of Default, any deposits or other sums credited by or due from any Bank to the Borrower and any securities or other property of the Borrower in the possession of such Bank may be applied to or set off against the payment of the Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrower to the Banks or the Administrative Agent. Any amounts set off with respect to the Obligations shall be distributed ratably in accordance with Section 29 among all of the Banks by the Bank setting off such amounts. If any Bank fails to share such setoff ratably, the Administrative Agent shall have the right to withhold such Bank's share of the Borrower's payments until each of the Banks shall have, in the aggregate, received a pro rata repayment.

SECTION 14. EXPENSES. Whether or not the transactions contemplated herein shall be consummated, the Borrower hereby promises to reimburse the Administrative Agent and the Joint Lead Arrangers and Joint Book Managers for all reasonable out-of-pocket fees and disbursements (including all reasonable attorneys' fees) incurred or expended in connection with the syndication, preparation, filing or recording, or interpretation of this Agreement, the other Loan Documents, or any amendment, modification, approval, consent or waiver hereof or thereof. The Borrower further promises to reimburse the Administrative Agent and the Banks for all reasonable out-of-pocket fees and disbursements (including all reasonable legal fees and the allocable cost of in-house attorneys' fees) incurred or expended in connection with the enforcement of any Obligations or the satisfaction of any indebtedness of the Borrower hereunder or under any other Loan Document, or in connection with any litigation, proceeding or dispute hereunder in any way related to the credit hereunder. The Borrower also promises to pay the Administrative Agent all reasonable out-of-pocket fees and disbursements, incurred or expended in connection with the Competitive Bid Loan procedure under Section 4 hereof.

SECTION 15. THE AGENTS.

SECTION 15.1. APPOINTMENT, POWERS AND IMMUNITIES. Each Bank hereby irrevocably appoints and authorizes Fleet to act as Administrative Agent, provided, however, the Administrative Agent is hereby authorized to serve only as administrative agent for the Banks and to exercise such powers as are reasonably incidental thereto and as are set forth in this Agreement and the other Loan Documents. The Administrative Agent hereby acknowledges that it does not have the authority to negotiate any agreement which would bind the Banks or agree to any amendment, waiver or modification of any of the Loan Documents or bind the Banks except as set forth in this Agreement or the Loan Documents. Except as provided in this Agreement, and in the other Loan Documents, the Administrative Agent shall take action or refrain from acting only upon instructions of the Banks. It is agreed that the duties, rights, privileges and immunities of the Issuing Banks, in their capacity as issuers of Letters of Credit hereunder, shall be identical to the duties, rights, privileges and immunities of the Administrative Agent as

provided in this Section 15. The Administrative Agent shall not have any duties or responsibilities or any fiduciary relationship with any Bank except those expressly set forth in this Agreement and the other Loan Documents. Neither the Administrative Agent nor any of its affiliates shall be responsible to the Banks for any recitals, statements, representations or warranties made by the Borrower or any other Person whether contained herein or otherwise or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the other Loan Documents or any other document referred to or provided for herein or therein or for any failure by the Borrower or any other Person to perform its obligations hereunder or thereunder. The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Administrative Agent, the Agents and any of their directors, officers, employees or agents shall not be responsible for any action taken or omitted to be taken by it or them hereunder or in connection herewith, except for its or their own gross negligence or willful misconduct. The Administrative Agent in its separate capacity as a Bank shall have the same rights and powers hereunder as any other Bank. The Co-Documentation Agents and the Co-Syndication Agents shall not have any right, power, obligation, liability, responsibility or duty under this Credit Agreement in such capacity, other than, with respect to the Co-Documentation Agents and BOA, those applicable to all Banks as Banks.

SECTION 15.2. ACTIONS BY ADMINISTRATIVE AGENT. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement as reasonably deemed appropriate unless it shall first have received the consent of the Majority Banks (or, when expressly required hereby, all of the Banks), and shall be indemnified to its reasonable satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any of the Loan Documents in accordance with the instruction of the Majority Banks (or, when expressly required hereby or thereby, all of the Banks), and such instruction and any action taken or failure to act pursuant thereto shall be binding upon the Banks and all future holders of any Loan Obligation or any Letter of Credit Participation.

SECTION 15.3. INDEMNIFICATION. Without limiting the obligations of the Borrower hereunder or under any other Loan Document, the Banks agree to indemnify the Administrative Agent, its affiliates and its respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) ratably in accordance with their respective Commitment Percentages for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of this Agreement or any other Loan Document or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or the enforcement of any of the terms hereof or thereof or of any such other documents; provided, that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Administrative Agent (or any agent thereof), IT BEING THE INTENT OF THE PARTIES HERETO THAT ALL SUCH INDEMNIFIED

PARTIES SHALL BE INDEMNIFIED FOR THEIR ORDINARY SOLE OR CONTRIBUTORY NEGLIGENCE.

SECTION 15.4. REIMBURSEMENT. Without limiting the provisions of Sections 5.1(a), 5.13, and 13, the Administrative Agent shall not be obliged to make available to any Person any sum which the Administrative Agent is expecting to receive for the account of that Person until the Administrative Agent has determined that it has received that sum. The Administrative Agent may, however, disburse funds prior to determining that the sums which the Administrative Agent expects to receive have been finally and unconditionally paid to the Administrative Agent, if the Administrative Agent wishes to do so. If and to the extent that the Administrative Agent does disburse funds and it later becomes apparent that the Administrative Agent did not then receive a payment in an amount equal to the sum paid out, then any Person to whom the Administrative Agent made the funds available shall, on demand from the Administrative Agent, refund to the Administrative Agent the sum paid to that Person. If, in the opinion of the Administrative Agent, the distribution of any amount received by it in such capacity hereunder or under the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Administrative Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Administrative Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

SECTION 15.5. DELINQUENT BANKS. Intentionally Omitted.

SECTION 15.6. DOCUMENTS. The Administrative Agent will forward to each Bank, promptly after receipt thereof, a copy of each notice or other document furnished to the Administrative Agent for such Bank hereunder; provided, however, that, notwithstanding the foregoing, the Administrative Agent may furnish to the Banks a monthly summary with respect to Letters of Credit issued hereunder in lieu of copies of the related Letter of Credit Applications.

SECTION 15.7. NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER BANKS. Each Bank represents that it has, independently and without reliance on the Administrative Agent, the Agents or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of the financial condition and affairs of the Borrower and the Guarantor and the decision to enter into this Agreement and the other Loan Documents and agrees that it will, independently and without reliance upon the Administrative Agent, the Agents or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own appraisals and decisions in taking or not taking action under this Agreement or any other Loan Document. Except as herein expressly provided to the contrary, the Administrative Agent shall not be required to keep informed as to the performance or observance by the Borrower and the Guarantor of this Agreement, the other Loan Documents or any other document referred to or provided for herein or therein or by any other Person of any other agreement or to make inquiry of, or to inspect the properties or books of, any Person. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Administrative Agent hereunder, the Administrative Agent

shall not have any duty or responsibility to provide any Bank with any credit or other information concerning any person which may come into the possession of the Administrative Agent or any of their affiliates. Each Bank shall have access to all documents relating to the Administrative Agent's performance of their duties hereunder at such Bank's request. Unless any Bank shall promptly object to any action taken by the Administrative Agent hereunder of which such Bank has actual knowledge (other than actions which require the prior consent of such Bank in accordance with the terms hereof or to which the provisions of Section 15.9 are applicable and other than actions which constitute gross negligence or willful misconduct by the Administrative Agent), such Bank shall be presumed to have approved the same.

SECTION 15.8. RESIGNATION OF ADMINISTRATIVE AGENT. The Administrative Agent may resign at any time by giving 60 days' prior written notice thereof to the Banks and the Borrower. Upon any such resignation, the Majority Banks (other than the resigning Administrative Agent) shall have the right to appoint a successor Administrative Agent from among the Banks, subject to the consent of the Borrower. If no successor to the Administrative Agent shall have been so appointed by the Majority Banks and approved by the Borrower and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent from among the remaining Banks, which shall be a financial institution having a combined capital and surplus in excess of \$1,000,000,000. Upon the acceptance of any appointment as the Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the retiring Administrative Agent's resignation, the provisions of this Agreement shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent. Any new Issuing Bank appointed pursuant to this Section 15.8 shall immediately issue new Letters of Credit in place of Letters of Credit previously issued or, if acceptable to the resigning Issuing Bank, issue letters of credit in favor of the resigning Issuing Bank as security for the outstanding Letters of Credit and shall in due course replace all Letters of Credit previously issued by the resigning Issuing Bank.

SECTION 15.9. ACTION BY THE BANKS, CONSENTS, AMENDMENTS, WAIVERS, ETC.
(a) No failure or delay by the Administrative Agent, any Issuing Bank or any Bank in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Banks and the Banks hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether the Administrative Agent, any Lender or the

Issuing Bank may have had notice or knowledge of such Default or Event of Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Majority Banks or by the Borrower and the Administrative Agent with the consent of the Majority Banks; provided that no such agreement shall (i) increase the Commitment of any Bank without the written consent of such Bank, (ii) reduce the principal amount of any Loan or Reimbursement Obligations, or reduce the rate of interest on the Loans or reduce any fees payable hereunder, without the written consent of each Bank affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Bank affected thereby; (iv) release the Borrower from its Obligations or the Guarantor from its Guaranteed Obligations hereunder without the written consent of each Bank, or (v) change any of the provisions of this Section 15.9 or any provision of this Agreement requiring action by all the Banks, or the percentage of Banks constituting "Majority Banks", without the written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or any Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Banks, as the case may be.

SECTION 16. INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Banks, the Agents, the Issuing Banks, the Joint Lead Arrangers and Joint Book Managers and the Administrative Agent and their affiliates, as well as the Banks' and the Administrative Agent's and their affiliates' shareholders, directors, agents, officers, subsidiaries and affiliates, from and against all damages, losses, settlement payments, obligations, liabilities, claims, suits, penalties, assessments, citations, directives, demands, judgments, actions or causes of action, whether statutorily created or under the common law, and reasonable costs and expenses incurred, suffered, sustained or required to be paid by an indemnified party by reason of or resulting from the transactions contemplated hereby, except any of the foregoing which result from the gross negligence or willful misconduct of such indemnified party. In any investigation, enforcement matter, proceeding or litigation, or the preparation therefor, the Banks and the Administrative Agent shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel (including the non-duplicative allocated cost of internal counsel), and settlement costs. In the event of the commencement of any such proceeding or litigation against the Banks or Administrative Agent by third parties, the Borrower shall be entitled to participate in such proceeding or litigation with counsel of their choice at their expense. The covenants of this Section 16 shall survive payment or satisfaction of payment of amounts owing with respect to any Note or the Loans and satisfaction of all the Obligations hereunder and under the Loan Documents, IT BEING THE INTENT OF THE PARTIES HERETO THAT ALL SUCH INDEMNIFIED PARTIES SHALL BE INDEMNIFIED FOR THEIR ORDINARY SOLE OR CONTRIBUTORY NEGLIGENCE.

SECTION 17. WITHHOLDING TAXES. The Borrower hereby agrees that:

(a) Any and all payments made by the Borrower hereunder shall be made free and clear of, and without deduction for, any and all present or future taxes, levies, fees, duties, imposts, deductions, charges or withholdings of any nature whatsoever, excluding, in the case of the Administrative Agent or the Banks, (i) taxes imposed on, or measured by, its net income or profits, (ii) franchise taxes imposed on it, (iii) taxes imposed by any jurisdiction as a direct consequence of it, or any of its affiliates, having a present or former connection with such jurisdiction, including, without limitation, being organized, existing or qualified to do business, doing business or maintaining a permanent establishment or office in such jurisdiction, and (iv) taxes imposed by reason of its failure to comply with any applicable certification, identification, information, documentation or other reporting requirement (all such non-excluded taxes being hereinafter referred to as "Indemnifiable Taxes"). In the event that any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Indemnifiable Taxes pursuant to any applicable law, or governmental rule or regulation, then the Borrower will (i) direct to the relevant taxing authority the full amount required to be so withheld or deducted, (ii) forward to the Administrative Agent for delivery to the applicable Bank an official receipt or other documentation satisfactory to the Administrative Agent and the applicable Bank evidencing such payment to such taxing authority, and (iii) direct to the Administrative Agent for the account of the relevant Banks such additional amount or amounts as is necessary to ensure that the net amount actually received by each relevant Bank will equal the full amount such Bank would have received had no such withholding or deduction (including any Indemnifiable Taxes on such additional amounts) been required. Moreover, if any Indemnifiable Taxes are directly asserted against the Administrative Agent or any Bank with respect to any payment received by the Administrative Agent or such Bank by reason of the Borrower's failure to properly deduct and withhold such Indemnifiable Taxes from such payment, the Administrative Agent or such Bank may pay such Indemnifiable Taxes and the Borrower will promptly pay all such additional amounts (including any penalties, interest or reasonable expenses) as is necessary in order that the net amount received by such Person after the payment of such Indemnifiable Taxes (including any Indemnifiable Taxes on such additional amount) shall equal the amount such Person would have received had not such Indemnifiable Taxes been asserted. Any such payment shall be made promptly after the receipt by the Borrower from the Administrative Agent or such Bank, as the case may be, of a written statement setting forth in reasonable detail the amount of the Indemnifiable Taxes and the basis of the claim.

(b) The Borrower shall pay any present or future stamp or documentary taxes or any other excise or any other similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document ("Other Taxes").

(c) The Borrower hereby indemnifies and holds harmless the Administrative Agent and each Bank for the full amount of Indemnifiable Taxes or Other Taxes (including, without limitation, any Indemnifiable Taxes or Other Taxes imposed on amounts payable under this Section 17) paid by the Administrative

Agent or such Bank, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, by reason of the Borrower's failure to properly deduct and withhold Indemnifiable Taxes pursuant to paragraph (a) above or to properly pay Other Taxes pursuant to paragraph (b) above. Any indemnification payment from the Borrower under the preceding sentence shall be made promptly after receipt by the Borrower from the Administrative Agent or Bank of a written statement setting forth in reasonable detail the amount of such Indemnifiable Taxes or such Other Taxes, as the case may be, and the basis of the claim.

(d) If the Borrower pays any amount under this Section 17 to the Administrative Agent or any Bank and such payee knowingly receives a refund of any taxes with respect to which such amount was paid, the Administrative Agent or such Bank, as the case may be, shall pay to the Borrower the amount of such refund promptly following the receipt thereof by such payee.

(e) In the event any taxing authority notifies the Borrower or the Guarantor that any of them has improperly failed to deduct or withhold any taxes (other than Indemnifiable Taxes) from a payment made hereunder to the Administrative Agent or any Bank, the Borrower shall timely and fully pay such taxes to such taxing authority.

(f) The Administrative Agent or the Banks shall, upon the request of the Borrower, take reasonable measures to avoid or mitigate the amount of Indemnifiable Taxes required to be deducted or withheld from any payment made hereunder if such measures can be taken without such Person in its sole judgment suffering any legal, regulatory or economic disadvantage.

(g) Without prejudice to the survival of any other agreement of the parties hereunder, the agreements and obligations of the Borrower contained in this Section 17 shall survive the payment in full of the Obligations.

SECTION 18. TREATMENT OF CERTAIN CONFIDENTIAL INFORMATION.

SECTION 18.1. CONFIDENTIALITY. Each of the Banks and the Administrative Agent agrees, on behalf of itself and each of its affiliates, directors, officers, employees and representatives, to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower or any of its Subsidiaries pursuant to this Agreement that is identified by such Person as being confidential at the time the same is delivered to the Banks or the Administrative Agent, provided that nothing herein shall limit the disclosure of any such information (a) after such information shall have become public other than through a violation of this Section 18, or becomes available to any of the Banks or the Administrative Agent on a nonconfidential basis from a source other than the Borrower, (b) to the extent required by statute, rule, regulation or judicial process, (c) to counsel for any of the Banks or the Administrative Agent, (d) to bank examiners or any other regulatory authority having jurisdiction over any Bank or the Administrative Agent, or to auditors or accountants, (e) to the Administrative Agent, any Bank or any Financial Affiliate, (f) in connection with any litigation to which any one or more of the Banks, the

Administrative Agent or any Financial Affiliate is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (g) to an affiliate of any Bank or the Administrative Agent, (h) to any actual or prospective assignee or participant or any actual or prospective counterparty (or its advisors) to any swap or derivative transactions referenced to credit or other risks or events arising under this Agreement or any other Loan Document so long as such assignee, participant or counterparty, as the case may be, agrees to be bound by the provisions of Section 18.1, or (i) with the consent of the Borrower.

SECTION 18.2. PRIOR NOTIFICATION. Unless specifically prohibited by applicable law or court order, each of the Banks and the Administrative Agent shall, prior to disclosure thereof, notify the Borrower of any request for disclosure of any such non-public information by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Bank by such governmental agency) or pursuant to legal process.

SECTION 18.3. OTHER. In no event shall any Bank or the Administrative Agent be obligated or required to return any materials furnished to it or any Financial Affiliate by the Borrower or any of its Subsidiaries. The obligations of each Bank under this Section 18 shall supersede and replace the obligations of such Bank under any confidentiality letter in respect of this financing signed and delivered by such Bank to the Borrower prior to the date hereof and shall be binding upon any assignee of, or purchaser of any participation in, any interest in any of the Loans or Reimbursement Obligations from any Bank.

SECTION 19. SURVIVAL OF COVENANTS, ETC. Unless otherwise stated herein, all covenants, agreements, representations and warranties made herein, in the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or the Guarantor pursuant hereto shall be deemed to have been relied upon by the Banks, the Issuing Banks and the Administrative Agent, notwithstanding any investigation heretofore or hereafter made by them, and shall survive the making by the Banks of the Loans and the issuance, extension or renewal of any Letters of Credit by any Issuing Bank, as herein contemplated, and shall continue in full force and effect so long as any amount due under this Agreement, any Obligation, or any Letter of Credit remains outstanding and unpaid or any Bank has any obligation to make any Loans or any Issuing Bank has any obligation to issue, extend, or renew any Letters of Credit hereunder. All statements contained in any certificate or other paper delivered by or on behalf of the Borrower pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrower hereunder.

SECTION 20. ASSIGNMENT AND PARTICIPATION. It is understood and agreed that each Bank shall have the right to assign at any time all or a portion of its Commitment Percentage and interests in the risk relating to the Loans, outstanding Letters of Credit and its Commitment hereunder in an amount equal to or greater than \$5,000,000 (or, if a Bank's Commitment is less than \$5,000,000, in a minimum amount equal to such Bank's Commitment, provided that prior to any Commitment reductions pursuant to Section 2.3.1, such Bank's Commitment was at least \$5,000,000) to additional banks, other financial institutions or Bank Affiliates with the prior written approval of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower, which approvals shall not be unreasonably withheld. Any Bank may at

any time, and from time to time, assign to any branch, lending office, or Bank Affiliate all or any part of its rights and obligations under the Loan Documents by notice to the Administrative Agent and the Borrower. It is further agreed that each bank or other financial institution which executes and delivers to the Administrative Agent and the Borrower hereunder an Assignment and Acceptance substantially in the form of Exhibit D hereto (an "Assignment and Acceptance") together with an assignment fee in the amount of \$3,500 payable by the assigning Bank to the Administrative Agent, shall, on the date specified in such Assignment and Acceptance, become a party to this Agreement and the other Loan Documents for all purposes of this Agreement and the other Loan Documents, and its portion of the Commitment, the Loans and Letters of Credit shall be as set forth in such Assignment and Acceptance. The Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except for indemnity rights arising out of the period prior to such assignment) and be released from its obligations under this Agreement and the other Loan Documents. Upon the execution and delivery of such Assignment and Acceptance (a) to the extent applicable, the Borrower shall issue Notes (and replacement Notes) or the Administrative Agent shall make appropriate entries on the applicable loan account(s) to reflect such assignment of Loan(s); and (b) this Agreement and Schedule 1 shall be deemed to be appropriately amended to reflect (i) the status of the bank, financial institution or Bank Affiliate as a party hereto and (ii) the status and rights of the Banks hereunder.

Each Bank shall also have the right to grant participations to one or more banks, other financial institutions or Bank Affiliates in its Commitment, the Loans and outstanding Letters of Credit. The documents evidencing any such participation shall limit such participating bank's, financial institution's or Bank Affiliate's, voting rights with respect to this Agreement to the matters set forth in Section 15.9(b)(i) - (v).

Notwithstanding the foregoing, no assignment or participation shall operate to increase the Total Commitment hereunder or otherwise alter the substantive terms of this Agreement, and no Bank which retains a Commitment hereunder shall have a Commitment of less than \$5,000,000, except as a result of reductions in the Total Commitment pursuant to Section 2.3 hereof.

Anything contained in this Section 20 to the contrary notwithstanding, any Bank may at any time pledge all or any portion of its interest and rights under this Agreement (including all or any portion of its Notes) to any of the twelve Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents.

The Borrower agrees that in addition to disclosures made in accordance with standard and customary banking practices any Bank may disclose information obtained by such Bank pursuant to this Agreement to assignees or participants and potential assignees or participants hereunder; provided that such assignees or participants or potential assignees or participants shall agree to be bound by Section 18 hereof.

SECTION 21. PARTIES IN INTEREST. All the terms of this Agreement and the other Loan Documents shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto and thereto; provided, that the

Borrower shall not assign or transfer its rights or obligations hereunder or thereunder without the prior written consent of each of the Banks.

SECTION 22. NOTICES, ETC. Except as otherwise expressly provided in this Agreement, all notices and other communications made or required to be given pursuant to this Agreement or the other Loan Documents shall be in writing and shall be delivered in hand, mailed by United States first class mail, postage prepaid, or sent by telegraph, telex or facsimile and confirmed by letter, addressed as follows:

(a) if to the Borrower or the Guarantor, at 1001 Fannin Street, Suite 4000, Houston, Texas 77002, Attention: Ronald H. Jones, Treasurer, facsimile number (713) 209-9710, with a copy to Lawrence O'Donnell, Executive Vice President, General Counsel and Secretary, facsimile number (713) 512-6325; or

(b) if to the Administrative Agent at Fleet National Bank, 100 Federal Street, Boston, Massachusetts 02110, Attention: Timothy Laurion, Managing Director, facsimile number (617) 434-2160; or

(c) if to any Bank, at the last address provided to the Administrative Agent;

or such other address for notice as shall have last been furnished in writing to the Person giving the notice.

Any such notice or demand shall be deemed to have been duly given or made and to have become effective (a) if delivered by hand to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer, (b) if sent by registered or certified first-class mail, postage prepaid, five Business Days after the posting thereof, and (c) if sent by telex, facsimile, or cable, at the time of the dispatch thereof, if in normal business hours in the country of receipt, or otherwise at the opening of business on the following Business Day.

SECTION 23. MISCELLANEOUS. The rights and remedies herein expressed are cumulative and not exclusive of any other rights which the Banks, the Issuing Banks or the Administrative Agent would otherwise have. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof. This Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. This Agreement, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto, each other party hereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto shall raise the use of a facsimile machine to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile

machine as a defense to the formation of a contract and each party forever waives such defense.

SECTION 24. CONSENTS, ETC. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in this Section 24, subject to the provisions of Section 15.9. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. Except as otherwise expressly provided in this Agreement, any consent or approval required or permitted by this Agreement to be given by the Banks may be given, and any term of this Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower of any terms of this Agreement or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the Majority Banks. To the extent permitted by law, no course of dealing or delay or omission on the part of any of the Banks, the Issuing Banks or the Administrative Agent in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

SECTION 25. WAIVER OF JURY TRIAL. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT AS PROHIBITED BY LAW, THE BORROWER AND THE GUARANTOR HEREBY WAIVE ANY RIGHT EITHER OF THEM MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THE PRECEDING SENTENCE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE BORROWER AND THE GUARANTOR EACH (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY BANK, ANY ISSUING BANK, THE ADMINISTRATIVE AGENT OR ANY AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH BANK, SUCH ISSUING BANK, THE ADMINISTRATIVE AGENT OR SUCH AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (B) ACKNOWLEDGES THAT THE ADMINISTRATIVE AGENT, THE BANKS, AND THE ISSUING BANKS HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BECAUSE OF, AMONG OTHER THINGS, THE BORROWER'S AND THE GUARANTOR'S WAIVERS AND CERTIFICATIONS CONTAINED HEREIN.

SECTION 26. GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE STATE OF NEW YORK AND

SHALL, PURSUANT TO NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1401, BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK. THE BORROWER AND THE GUARANTOR CONSENT AND AGREE THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER IN ACCORDANCE WITH LAW AT THE ADDRESS SPECIFIED IN SECTION 22. THE BORROWER AND THE GUARANTOR HEREBY WAIVE ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

SECTION 27. SEVERABILITY. The provisions of this Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

SECTION 28. GUARANTY.

SECTION 28.1. GUARANTY. For value received and hereby acknowledged and as an inducement to the Banks and the Issuing Banks to make the Loans available to the Borrower, and issue, extend or renew Letters of Credit for the account of the Borrower, the Guarantor hereby unconditionally and irrevocably guarantees (a) the full punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of the Borrower now or hereafter existing whether for principal, interest, fees, expenses or otherwise, and (b) the strict performance and observance by the Borrower of all agreements, warranties and covenants applicable to the Borrower in the Loan Documents and (c) the obligations of the Borrower under the Loan Documents (such Obligations collectively being hereafter referred to as the "Guaranteed Obligations").

SECTION 28.2. GUARANTY ABSOLUTE. The Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms hereof, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Bank, any Issuing Bank or the Administrative Agent with respect thereto. The liability of the Guarantor under the guaranty granted under this Agreement with regard to the Guaranteed Obligations shall be absolute and unconditional irrespective of:

(a) any change in the time, manner or place of payment of, or in any other term of, all or any of its Guaranteed Obligations or any other amendment or waiver of or any consent to departure from this Agreement or any other Loan Document (with regard to such Guaranteed Obligations);

(b) any release or amendment or waiver of or consent to departure from any other guaranty for all or any of its Guaranteed Obligations;

(c) any change in ownership of the Borrower;

(d) any acceptance of any partial payment(s) from the Borrower or the Guarantor; or

(e) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of its Obligations under any Loan Document.

The guaranty under this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Guaranteed Obligation is rescinded or must otherwise be returned by the Banks, the Issuing Banks or the Administrative Agent upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

SECTION 28.3. EFFECTIVENESS; ENFORCEMENT. The guaranty under this Agreement shall be effective and shall be deemed to be made with respect to each Loan and each Letter of Credit as of the time it is made, issued or extended, or becomes a Letter of Credit under this Agreement, as applicable. No invalidity, irregularity or unenforceability by reason of any bankruptcy or similar law, or any law or order of any government or agency thereof purporting to reduce, amend or otherwise affect any liability of the Borrower, and no defect in or insufficiency or want of powers of the Borrower or irregular or improperly recorded exercise thereof, shall impair, affect, be a defense to or claim against such guaranty. The guaranty under this Agreement is a continuing guaranty and shall (a) survive any termination of this Agreement, and (b) remain in full force and effect until payment in full of, and performance of, all Guaranteed Obligations and all other amounts payable under this Agreement. The guaranty under this Agreement is made for the benefit of the Administrative Agent, the Issuing Banks and the Banks and their successors and assigns, and may be enforced from time to time as often as occasion therefor may arise and without requirement on the part of the Administrative Agent, the Issuing Banks or the Banks first to exercise any rights against the Borrower, or to resort to any other source or means of obtaining payment of any of the said obligations or to elect any other remedy.

SECTION 28.4. WAIVER. Except as otherwise specifically provided in any of the Loan Documents, the Guarantor hereby waives promptness, diligence, protest, notice of protest, all suretyship defenses, notice of acceptance and any other notice with respect to any of its Guaranteed Obligations and the guaranty under this Agreement and any requirement that the Banks, the Issuing Banks or the Administrative Agent protect, secure, perfect any security interest or Lien or any property subject thereto or exhaust any right or take any action against the Borrower or any other Person. The Guarantor also irrevocably waives, to the fullest extent permitted by law, all defenses which at any time may be available to it in respect of its Guaranteed Obligations by virtue of any statute of limitations, valuation, stay, moratorium law or other similar law now or hereafter in effect.

SECTION 28.5. EXPENSES. The Guarantor hereby promises to reimburse (a) the Administrative Agent for all reasonable out-of-pocket fees and disbursements (including all reasonable attorneys' fees), incurred or expended in connection with the preparation, filing or recording, or interpretation of the guaranty under this Agreement, the other Loan Documents to which the Guarantor is a party, or any amendment, modification, approval, consent or waiver hereof or thereof, and (b) the Administrative Agent, the Issuing Banks and the Banks and their respective affiliates for all reasonable out-of-pocket fees and disbursements (including reasonable attorneys' fees), incurred or expended in connection with the enforcement of its Guaranteed Obligations (whether or not legal proceedings are instituted). The Guarantor will pay any taxes (including any interest and penalties in respect thereof) other than the Banks' taxes based on overall income or profits, payable on or with respect to the transactions contemplated by the guaranty under this Agreement, the Guarantor hereby agreeing jointly and severally to indemnify each Bank with respect thereto.

SECTION 28.6. CONCERNING JOINT AND SEVERAL LIABILITY OF THE GUARANTOR.

(a) The Guarantor hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the Borrower, with respect to the payment and performance of all of its Guaranteed Obligations (including, without limitation, any Guaranteed Obligations arising under this Section 28), it being the intention of the parties hereto that all such Guaranteed Obligations shall be the joint and several Guaranteed Obligations of the Guarantor and the Borrower without preferences or distinction among them.

(b) If and to the extent that the Borrower shall fail to make any payment with respect to any of its Obligations as and when due or to perform any of its Guaranteed Obligations in accordance with the terms thereof, then in each such event the Guarantor will make such payment with respect to, or perform, such Guaranteed Obligation.

(c) The Guaranteed Obligations of the Guarantor under the provisions of this Section 28 constitute full recourse obligations of the Guarantor enforceable against the Guarantor to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstance whatsoever.

(d) Except as otherwise expressly provided in this Agreement, the Guarantor hereby waives notice of acceptance of its joint and several liability, notice of any Loans made, or Letters of Credit issued under this Agreement, notice of any action at any time taken or omitted by the Administrative Agent, the Issuing Banks or the Banks under or in respect of any of the Guaranteed Obligations, and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement. The Guarantor hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Guaranteed Obligations, the acceptance of any payment of any of the Guaranteed Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by the Administrative Agent, the Issuing Banks or the Banks at any time or times in respect of any Default or Event of Default by the Borrower or

the Guarantor in the performance or satisfaction of any term, covenant, condition or provision of this Agreement or any other Loan Document, any and all other indulgences whatsoever by the Administrative Agent, the Issuing Banks or the Banks in respect of any of the Guaranteed Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Guaranteed Obligations or the addition, substitution or release, in whole or in part, of the Borrower or the Guarantor. Without limiting the generality of the foregoing, the Guarantor assents to any other action or delay in acting or failure to act on the part of the Banks, the Issuing Banks or the Administrative Agent with respect to the failure by the Borrower or the Guarantor to comply with its respective Obligations or Guaranteed Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 28, afford grounds for terminating, discharging or relieving the Guarantor, in whole or in part, from any of the Guaranteed Obligations under this Section 28, it being the intention of the Guarantor that, so long as any of the Guaranteed Obligations hereunder remain unsatisfied, the Guaranteed Obligations of the Guarantor under this Section 28 shall not be discharged except by performance and then only to the extent of such performance. The Guaranteed Obligations of the Guarantor under this Section 28 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to the Borrower or the Guarantor or the Banks, the Issuing Banks or the Administrative Agent. The joint and several liability of the Guarantor hereunder shall continue in full force and effect notwithstanding any absorption, merger, consolidation, amalgamation or any other change whatsoever in the name, membership, constitution or place of formation of the Borrower or the Guarantor, the Banks, the Issuing Banks or the Administrative Agent.

(e) The Guarantor shall be liable under this Section 28 only for the maximum amount of such liabilities that can be incurred under applicable law without rendering this Section 28 voidable under applicable law relating to fraudulent conveyance and fraudulent transfer, and not for any greater amount. Accordingly, if any obligation under any provision under this Section 28 shall be declared to be invalid or unenforceable in any respect or to any extent, it is the stated intention and agreement of the Guarantor, the Administrative Agent, the Issuing Banks and the Banks that any balance of the obligation created by such provision and all other obligations of the Guarantor under this Section 28 to the Banks, the Issuing Banks or the Administrative Agent shall remain valid and enforceable, and that all sums not in excess of those permitted under applicable law shall remain fully collectible by the Banks, the Issuing Banks and the Administrative Agent from the Borrower or the Guarantor, as the case may be.

(f) The provisions of this Section 28 are made for the benefit of the Administrative Agent, the Issuing Banks and the Banks and their successors and assigns, and may be enforced in good faith by them from time to time against the Guarantor as often as occasion therefor may arise and without requirement on the part of the Administrative Agent, the Issuing Banks or the Banks first to marshal any of their claims or to exercise any of their rights against the Borrower or the Guarantor or to exhaust any remedies available to them against the Borrower or the

Guarantor or to resort to any other source or means of obtaining payment of any of the obligations hereunder or to elect any other remedy. The provisions of this Section 28 shall remain in effect until all of the Guaranteed Obligations shall have been paid in full or otherwise fully satisfied and the Commitments have expired and all outstanding Letters of Credit have expired, matured or otherwise been terminated. If at any time, any payment, or any part thereof, made in respect of any of the Guaranteed Obligations, is rescinded or must otherwise be restored or returned by the Banks, the Issuing Banks or the Administrative Agent upon the insolvency, bankruptcy or reorganization of the Borrower or the Guarantor, or otherwise, the provisions of this Section 28 will forthwith be reinstated in effect, as though such payment had not been made.

SECTION 28.7. WAIVER. Until the final payment and performance in full of all of the Obligations, the Guarantor shall not exercise and the Guarantor hereby waives any rights the Guarantor may have against the Borrower arising as a result of payment by the Guarantor hereunder, by way of subrogation, reimbursement, restitution, contribution or otherwise, and will not prove any claim in competition with the Administrative Agent, the Issuing Banks or any Bank in respect of any payment hereunder in any bankruptcy, insolvency or reorganization case or proceedings of any nature; the Guarantor will not claim any setoff, recoupment or counterclaim against the Borrower in respect of any liability of the Borrower to the Guarantor; and the Guarantor waives any benefit of and any right to participate in any collateral security which may be held by the Administrative Agent, the Issuing Banks or any Bank.

SECTION 28.8. SUBROGATION; SUBORDINATION. The payment of any amounts due with respect to any indebtedness of the Borrower for money borrowed or credit received now or hereafter owed to the Guarantor is hereby subordinated to the prior payment in full of all of the Obligations. The Guarantor agrees that, after the occurrence of any default in the payment or performance of any of the Obligations, the Guarantor will not demand, sue for or otherwise attempt to collect any such indebtedness of the Borrower to the Guarantor until all of the Obligations shall have been paid in full. If, notwithstanding the foregoing sentence, the Guarantor shall collect, enforce or receive any amounts in respect of such indebtedness while any Obligations are still outstanding, such amounts shall be collected, enforced and received by the Guarantor as trustee for the Banks, the Issuing Banks and the Administrative Agent and be paid over to the Administrative Agent at Default, for the benefit of the Banks, the Issuing Banks, and the Administrative Agent on account of the Obligations without affecting in any manner the liability of the Guarantor under the other provisions hereof.

SECTION 29. PARI PASSU TREATMENT.

(a) Notwithstanding anything to the contrary set forth herein, each payment or prepayment of principal and interest received after the occurrence of an Event of Default hereunder shall be distributed pari passu among the Banks, in accordance with the aggregate outstanding principal amount of the Obligations owing to each Bank divided by the aggregate outstanding principal amount of all Obligations.

(b) Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against any Borrower (pursuant to Section 13 or otherwise), including a secured claim under Section 506 of the Bankruptcy Code or other security or interest arising from or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, obtain payment (voluntary or involuntary) in respect of the Notes, Loans, Reimbursement Obligations and other Obligations held by it (other than pursuant to Section 5.5, Section 5.6 or Section 5.8) as a result of which the unpaid principal portion of the Notes and the Obligations held by it shall be proportionately less than the unpaid principal portion of the Notes and the Obligations held by any other Bank, it shall be deemed to have simultaneously purchased from such other Bank a participation in the Notes and the Obligations held by such other Bank, so that the aggregate unpaid principal amount of the Notes and the Obligations and participations in Notes and Obligations held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of the Notes and the Obligations then outstanding as the principal amount of the Notes and the Obligations held by it prior to such exercise of banker's lien, setoff or counterclaim was to the principal amount of all Notes and Obligations outstanding prior to such exercise of banker's lien, setoff or counterclaim; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 29 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustments restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Person holding such a participation in the Obligations deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Person as fully as if such Person had made a Loan directly to the Borrower in the amount of such participation.

SECTION 30. FINAL AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first set forth above.

THE BORROWER AND GUARANTOR:

WASTE MANAGEMENT, INC.

By:

Name:
Title: Vice President and Treasurer

WASTE MANAGEMENT HOLDINGS, INC.

By:

Name:
Title: Executive Vice President and Chief
Administrative Officer

By:

Name:
Title: Vice President and Treasurer

THE BANKS AND AGENTS:

FLEET NATIONAL BANK, individually and as
Administrative Agent

By

Name:
Title:

BANK OF AMERICA, N.A.

By

Name:
Title:

JPMORGAN CHASE BANK

By

Name:

Title:

DEUTSCHE BANK AG NEW YORK BRANCH

By

Name:

Title:

CITIBANK, N.A.

By

Name:

Title:

WASTE MANAGEMENT, INC.

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

	Six Months Ended June 30,	
	2002	2001
	----	----
Income before income taxes, extraordinary items, cumulative effect of changes in accounting principle, undistributed earnings from affiliated companies and minority interests	\$576	\$519
	----	----
Fixed charges deducted from income:		
Interest expense	232	301
Implicit interest in rents	29	31
	----	----
	261	332
	----	----
Earnings available for fixed charges	\$837	\$851
	=====	=====
Interest expense	\$232	\$301
Capitalized interest	9	9
Implicit interest in rents	29	31
	----	----
Total fixed charges	\$270	\$341
	=====	=====
Ratio of earnings to fixed charges	3.1	2.5
	=====	=====