

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 MARCH 31, 2000

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 May 9, 2000 was 621,088,479 (excluding 7,892,612 shares held in the Waste Management, Inc. Employee Stock Benefit Trust and treasury shares of 73,709).

PART I.

ITEM 1. FINANCIAL STATEMENTS.

WASTE MANAGEMENT, INC.

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

ASSETS

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
	(UNAUDITED)	
Current assets:		
Cash and cash equivalents.....	\$ 147,422	\$ 181,357
Accounts receivable, net.....	1,614,113	1,907,287
Parts and supplies.....	115,160	107,222
Deferred income taxes.....	291,479	298,433
Prepaid expenses and other.....	154,198	190,744
Operations held for sale.....	3,583,650	3,535,502
	-----	-----
Total current assets.....	5,906,022	6,220,545
Property and equipment, net.....	10,136,441	10,303,803
Excess of cost over net assets of acquired businesses, net.....	5,212,046	5,185,909
Other intangible assets, net.....	152,735	170,768
Other assets.....	816,937	800,399
	-----	-----
Total assets.....	\$22,224,181	\$22,681,424
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 965,868	\$ 1,062,536
Accrued liabilities.....	1,432,917	1,512,873
Deferred revenues.....	404,881	407,084
Current maturities of long-term debt.....	2,760,371	3,098,742
Operations held for sale.....	1,397,985	1,408,220
	-----	-----
Total current liabilities.....	6,962,022	7,489,455
Long-term debt, less current maturities.....	8,352,949	8,399,346
Deferred income taxes.....	807,657	729,902
Environmental liabilities.....	849,312	837,407
Other liabilities.....	790,515	815,028
	-----	-----
Total liabilities.....	17,762,455	18,271,138
Minority interest in subsidiaries.....	8,964	7,674
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued.....	--	--
Common stock, \$.01 par value; 1,500,000,000 shares authorized; 629,006,157 and 627,283,618 shares issued, respectively.....	6,290	6,273
Additional paid-in capital.....	4,439,324	4,440,159
Retained earnings.....	717,749	662,746
Accumulated other comprehensive income (loss).....	(594,420)	(563,086)
Restricted stock unearned compensation.....	(4,261)	(3,936)
Treasury stock at cost, 73,709 shares.....	(3,890)	(3,890)
Employee stock benefit trust at market, 7,892,612 shares.....	(108,030)	(135,654)
	-----	-----
Total stockholders' equity.....	4,452,762	4,402,612
	-----	-----
Total liabilities and stockholders' equity.....	\$22,224,181	\$22,681,424
	=====	=====

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

WASTE MANAGEMENT, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2000 ----- (UNAUDITED)	1999 ----- (UNAUDITED)
Operating revenues.....	\$3,217,309	\$3,070,635
Costs and expenses:		
Operating (exclusive of depreciation and amortization shown below).....	1,955,716	1,676,783
General and administrative.....	494,011	259,938
Depreciation and amortization.....	350,409	356,332
Merger and acquisition related costs.....	--	17,484
Asset impairments and unusual items.....	103,353	--
	-----	-----
	2,903,489	2,310,537
	-----	-----
Income from operations.....	313,820	760,098
	-----	-----
Other income (expense):		
Interest expense.....	(210,209)	(176,157)
Interest income.....	8,848	2,818
Minority interest.....	(5,972)	(6,462)
Other income, net.....	13,366	14,363
	-----	-----
	(193,967)	(165,438)
	-----	-----
Income before income taxes.....	119,853	594,660
Provision for income taxes.....	64,850	247,972
	-----	-----
Net income.....	\$ 55,003	\$ 346,688
	=====	=====
Basic earnings per common share.....	\$ 0.09	\$ 0.57
	=====	=====
Diluted earnings per common share.....	\$ 0.09	\$ 0.55
	=====	=====
Weighted average number of common shares outstanding.....	620,633	602,522
	=====	=====
Weighted average number of common and dilutive potential common shares outstanding.....	621,542	642,481
	=====	=====

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

WASTE MANAGEMENT, INC.

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

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RESTRICTED STOCK UNEARNED COMPENSATION	TREASURY STOCK
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1999.....	\$ --	\$6,273	\$4,440,159	\$662,746	\$(563,086)	\$(3,936)	\$(3,890)
Net income.....	--	--	--	55,003	--	--	--
Common stock issued upon exercise of stock options and warrants and grants of restricted stock (including tax benefit).....	--	2	1,559	--	--	(685)	--
Earned compensation related to restricted stock.....	--	--	--	--	--	360	--
Common stock issued in connection with litigation settlements.....	--	11	17,141	--	--	--	--
Adjustment of employee stock benefit trust to market value.....	--	--	(27,624)	--	--	--	--
Adjustment for minimum pension liability, net of taxes.....	--	--	--	--	48,013	--	--
Cumulative translation adjustment of foreign currency statements.....	--	--	--	--	(79,347)	--	--
Other.....	--	4	8,089	--	--	--	--
Balance, March 31, 2000.....	\$ --	\$6,290	\$4,439,324	\$717,749	\$(594,420)	\$(4,261)	\$(3,890)
	=====	=====	=====	=====	=====	=====	=====

EMPLOYEE
STOCK
BENEFIT TRUST

Balance, December 31, 1999.....	\$(135,654)
Net income.....	--
Common stock issued upon exercise of stock options and warrants and grants of restricted stock (including tax benefit).....	--
Earned compensation related to restricted stock.....	--
Common stock issued in connection with litigation settlements.....	--
Adjustment of employee stock benefit trust to market value.....	27,624
Adjustment for minimum pension liability, net of taxes.....	--
Cumulative translation adjustment of foreign currency statements.....	--
Other.....	--
Balance, March 31, 2000.....	\$(108,030)
	=====

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

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:		
Net income.....	\$ 55,003	\$ 346,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts.....	13,293	8,994
Depreciation and amortization.....	350,409	356,332
Deferred income tax provision.....	38,822	129,726
Net gain on disposal of assets.....	(12,632)	(7,004)
Minority interest in subsidiaries.....	5,972	6,462
Effect of asset impairments and unusual items.....	103,353	--
Change in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable and other receivables.....	288,043	(70,506)
Prepaid expenses and other current assets.....	(20,782)	(88,697)
Other assets.....	21,049	26,683
Accounts payable and accrued liabilities.....	(182,017)	(34,245)
Deferred revenues and other liabilities.....	16,712	(328,539)
Other, net.....	(1,996)	12,570
Net cash provided by operating activities.....	675,229	358,464
Cash flows from investing activities:		
Short-term investments.....	53,733	(6,466)
Acquisitions of businesses, net of cash acquired.....	(114,110)	(280,797)
Capital expenditures.....	(248,565)	(281,272)
Proceeds from divestitures of businesses and other asset sales.....	62,022	275,733
Other.....	(43,776)	4,998
Net cash used in investing activities.....	(290,696)	(287,804)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt.....	64,774	636,745
Principal payments on long-term debt.....	(481,649)	(757,217)
Other.....	874	24,069
Net cash used in financing activities.....	(416,001)	(96,403)
Effect of exchange rate changes on cash and cash equivalents.....	(2,467)	(1,766)
Decrease in cash and cash equivalents.....	(33,935)	(27,509)
Cash and cash equivalents at beginning of period.....	181,357	86,873
Cash and cash equivalents at end of period.....	\$ 147,422	\$ 59,364

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

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
Net income.....	\$ 55,003	\$346,688
Other comprehensive income (loss):		
Foreign currency translation adjustment.....	(79,347)	(61,545)
Minimum pension liability adjustment, net of taxes of \$30,568 in 2000.....	48,013	--
Other comprehensive income (loss).....	(31,334)	(61,545)
Comprehensive income.....	\$ 23,669	\$285,143
	=====	=====

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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The condensed consolidated financial statements of Waste Management, Inc. and subsidiaries (collectively referred to herein as the "Company", unless the context indicates otherwise) presented herein are unaudited. In the opinion of management, these financial statements include all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in the Annual Report on Form 10-K for the year ended December 31, 1999.

As previously reported in the Company's Form 10-Q for the quarter ended September 30, 1999 and the Company's Form 10-K for the year ended December 31, 1999, the Company concluded that its internal controls for the preparation of interim financial information during 1999 did not provide an adequate basis for its independent public accountants to complete reviews of the 1999 quarterly financial information in accordance with standards established by the American Institute of Certified Public Accountants.

The Company believes that the processes it used for the preparation of its March 31, 2000 interim financial statements have improved. In addition, the Company has committed substantial resources to mitigate the previously identified control weaknesses. Management believes these efforts have enabled the Company to produce timely and reliable interim financial statements as of March 31, 2000 and for the three months then ended. Management further believes that its processes will continue to improve throughout 2000, allowing it to reduce its reliance on the use of external resources as mitigating controls, although there can be no assurance that this will be the case.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and liabilities at the date of the financial statements and during the reporting period. Specifically, with regard to landfill accounting, the Company uses engineering and accounting estimates when projecting future development and final closure and post-closure costs, forecasting various engineering specifications (including the prediction of waste settlement), and future operational plans and waste volumes. Actual results could differ materially from those estimates. See "Management's Discussion and Analysis" elsewhere herein.

Certain reclassifications have been made to prior year amounts in the financial statements in order to conform to the current year presentation.

1. LONG-TERM DEBT

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

	MARCH 31, 2000	DECEMBER 31, 1999
	-----	-----
Bank credit facilities.....	\$ 2,290,000	\$ 2,250,000
Commercial paper, average interest of 5.5% in 1999.....	--	21,899
Senior notes and debentures, interest of 6% to 8 3/4% through 2029.....	6,750,725	6,749,785
4% Convertible subordinated notes due 2002.....	535,275	535,275
5.75% Convertible subordinated notes due 2005.....	30,735	426,726
Tax-exempt and project bonds, principal payable in periodic installments, maturing through 2021, fixed and variable interest rates ranging from 4.0% to 9.25% at March 31, 2000.....	1,201,757	1,234,668
Installment loans, notes payable, and other, interest to 14%, maturing through 2015.....	304,828	279,735
	-----	-----
	11,113,320	11,498,088
Less current maturities.....	2,760,371	3,098,742
	-----	-----
	\$ 8,352,949	\$ 8,399,346
	=====	=====

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company has a \$3 billion syndicated loan facility (the "Syndicated Facility") and a \$2 billion senior revolving credit facility (the "Credit Facility"). The Syndicated Facility requires annual renewal by the lender and provides for a one-year term option at the Company's request in the event of non-renewal. The Syndicated Facility is available for borrowings, including letters of credit, and for supporting the issuance of commercial paper. The covenant restrictions for the Syndicated Facility and Credit Facility include, among others, interest coverage and debt capitalization ratios, limitations on dividends, additional indebtedness and liens. The Syndicated Facility and Credit Facility are used to refinance existing bank loans and letters of credit, to fund acquisitions, and for working capital purposes.

At March 31, 2000, the Company had borrowings of approximately \$1.8 billion under the Syndicated Facility at an average interest rate of 7.03%, and had borrowings of \$500.0 million under the Credit Facility at 7.0% interest. The facility fees were 0.20% and 0.25% per annum under the Syndicated Facility and Credit Facility, respectively, at March 31, 2000. The Company had issued letters of credit of approximately \$1.2 billion in aggregate under the Syndicated Facility and Credit Facility leaving unused and available credit capacity of approximately \$1.5 billion at March 31, 2000.

Under the terms of the Syndicated Facility and Credit Facility, the Company is obligated to repay its indebtedness under such facilities with the cash proceeds to be received from the divestitures of its international operations outside North America ("WM International"), domestic non-core assets and up to 10% of its North America solid waste ("NASW") operations. Specifically, the Company must use all of the first \$1.5 billion from sales of domestic operations to repay indebtedness under such facilities. Additionally, 50% of the net proceeds greater than \$1.5 billion but less than \$2.5 billion from the sales of domestic operations must be used to repay the indebtedness. Finally, all net proceeds from the divestiture of the Company's WM International operations were required to be used to repay indebtedness under the Company's Eurocurrency facilities, all of which indebtedness, as described below, has been repaid since March 31, 2000. The net proceeds from WM International divestitures received by the Company after the repayment of the Eurocurrency facilities are subject to the same requirements to repay the Syndicated Facility and Credit Facility as net proceeds received from the sales of domestic operations.

The Company has obtained amendments to the Syndicated Facility and Credit Facility agreements for the quarter ended March 31, 2000 to maintain compliance with certain financial ratios. The Company anticipates that it may need to obtain further amendments to its existing financial covenants in those agreements in future quarters and, therefore, expects to restructure its covenant requirements during the renewal process for its Syndicated Facility in mid-2000. Until such restructuring is completed, the Company will continue to classify the borrowings outstanding under its Syndicated Facility and Credit Facility as short-term obligations. There can be no assurance the Company will be successful in obtaining a restructuring of its covenant requirements, and failure to obtain such a restructuring or additional amendments or waivers, would, in the event of an actual violation by the Company, have an adverse effect on the Company's financial condition, results of operations and cash flows.

On December 17, 1999, the Company's two Eurocurrency facilities were converted into two term loans totaling Euro 180.6 million (equivalent to approximately \$172.7 million at March 31, 2000). These loans are included in current liabilities of operations held for sale as of March 31, 2000 and December 31, 1999, as they relate to WM International operations, which are being sold pursuant to the Company's strategic plan. The interest rate was 4.91% for these loans as of March 31, 2000. Subsequent to March 31, 2000, the Company repaid and terminated its Eurocurrency term loans with net proceeds from its WM International divestiture activity.

The Company's 5.75% convertible subordinated notes due 2005 are subordinated to all existing and future senior indebtedness of the Company. Each note bears cash interest at the rate of two percent per annum of the \$1,000 principal amount at maturity, payable semi-annually. The difference between the principal amount at maturity of \$1,000 and the \$717.80 stated issue price of each note represents the stated discount. At the option

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of the holder, each note was redeemable for cash by the Company on March 15, 2000, at \$843.03, plus accrued interest through the date of redemption. The notes are callable by the Company for cash, plus accrued stated discount and accrued interest. In addition, each \$1,000 principal amount note is convertible at any time prior to maturity into approximately 18.9 shares of the Company's common stock, subject to adjustment upon the occurrence of certain events. Upon any such conversion, the Company has the option of paying cash equal to the market value of the shares which would otherwise be issuable. Through March 31, 2000, the Company had repurchased, for cash, \$396.7 million of these notes that were outstanding at December 31, 1999.

2. INCOME TAXES

The differences in federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended March 31, 2000 and 1999 are primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, and non-deductible held-for-sale impairment charges associated with certain foreign businesses.

3. EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	-----	-----
Number of common shares outstanding at end of period.....	621,040	605,940
Effect of using weighted average common shares outstanding.....	(407)	(3,418)
	-----	-----
Weighted average number of common shares outstanding.....	620,633	602,522
Dilutive effect of common stock options and warrants.....	909	9,652
Diluted effect of convertible subordinated notes and debentures.....	--	30,307
	-----	-----
Weighted average number of common and dilutive potential common shares outstanding.....	621,542	642,481
	=====	=====

For the three months ended March 31, 1999, interest (net of taxes) of \$7.2 million has been added to net income for the diluted earnings per share calculation. For the three months ended March 31, 2000, the effect of the Company's convertible subordinated notes and debentures are excluded from the diluted earnings per share calculation since the inclusion of such items would be antidilutive.

At March 31, 2000, there were approximately 56.6 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. COMPREHENSIVE INCOME (LOSS)

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

	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	MINIMUM PENSION LIABILITY ADJUSTMENT (NET OF TAX)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
	-----	-----	-----
Balance, December 31, 1999.....	\$(430,080)	\$(133,006)	\$(563,086)
Year-to-date change.....	(79,347)	48,013	(31,334)
	-----	-----	-----
Balance, March 31, 2000.....	\$(509,427)	\$ (84,993)	\$(594,420)
	=====	=====	=====

The Company is continuing the process of settling its obligations under the qualified defined benefit plan (the "Plan") for all eligible non-union domestic employees of Waste Management Holdings, Inc. ("WM Holdings") which was terminated as of October 31, 1999 in connection with the merger between the Company and WM Holdings in July 1998 (the "WM Holdings Merger"). To the extent that the termination benefit has not yet been charged to expense, additional minimum pension liability has been recorded as a charge to other comprehensive income. The pension related charge recorded in the three months ended March 31, 2000 of \$78.6 million, which is included in asset impairments and unusual items, is primarily due to the settlement by the Plan of obligations to certain participants that occurred during the three months ended March 31, 2000. The settlements were funded by the Plan's trust and resulted in a reduction in the minimum pension liability and a credit to other comprehensive income for the period. The Company expects to settle the remaining obligations at various dates through the remainder of 2000, at which time settlement expense will be recorded and adjustments to other comprehensive income will be made. In conjunction with the termination of the Plan, the Company expects to make payments of approximately \$185 million to the Plan's trust through the remainder of 2000.

The Company adopted a strategic plan in August 1999, one element of which is to pursue the divestiture of its WM International operations. Upon the divestiture of the Company's WM International operations, the foreign currency translation losses that are included in accumulated other comprehensive income (loss) will be recognized in the Company's statement of operations (decreasing any gain, or increasing any loss). The accumulated foreign currency translation loss for the Company's WM International operations was \$424.7 million and \$353.1 million as of March 31, 2000 and December 31, 1999, respectively; however, that amount will fluctuate from period to period with the change in foreign currency exchange rates. Such fluctuations may be material.

5. ENVIRONMENTAL LIABILITIES

The Company has material financial commitments for the costs associated with its future obligations for final closure, which is the closure of the landfill and the capping of the final uncapped areas of a landfill or costs required by regulation associated with existing operations at a hazardous waste treatment, storage or disposal facility which are subject to the Toxic Substances Control Act ("TSCA") or Subtitle C of the Resource Conservation and Recovery Act ("RCRA"), and post-closure maintenance of those facilities. Estimates for final closure and post-closure costs are developed using input from the Company's engineers and accountants and are reviewed by management, typically at least once per year. The 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 are accrued using the calculated rate per ton and charged to expense as airspace is consumed such that the present value of total estimated final closure and post-closure cost will be accrued for each landfill at the time the site discontinues accepting waste and is closed. In the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

United States, the final closure and post-closure requirements are established under the standards of the United States Environmental Protection Agency's ("EPA") Subtitle C and D regulations, as implemented and applied on a state-by-state basis. Such costs may increase in the future as a result of legislation or regulation. Final closure and post-closure accruals consider estimates for the final cap and cover for the site, methane gas control, leachate management and groundwater monitoring, and other operational and maintenance costs to be incurred after the site discontinues accepting waste, which is 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 based upon the estimated final closure and post-closure costs and the percentage of airspace utilized as of such date. 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 expense as airspace is consumed. Such costs for foreign landfills are estimated based on compliance with local laws, regulations and customs. For other facilities, final closure and post-closure costs are determined in consideration of regulatory requirements.

In March 1996, the EPA issued regulations that require large, municipal solid waste landfills with significant emissions of nonmethane organic compounds ("NMOC") to install and monitor systems to collect and control landfill gas. The regulations apply to landfills designed to accommodate 2.5 million cubic meters or more of municipal solid waste that emit 50 megagrams or more of NMOC emissions and that accepted waste for disposal after November 8, 1987, regardless of whether the site is active or closed. The date by which each affected landfill must have such a gas collection and control system depends on whether the landfill began operations before or after May 30, 1991. In the United States, landfills constructed, reconstructed, modified or first accepting waste after May 30, 1991, generally were required to have systems in place by late 1998 or within approximately 30 months of triggering the applicability criteria. Older landfills are generally regulated by states and are required to have landfill gas systems in place within approximately 30 months of EPA's approval of the state program. Many state solid waste regulations already require gas collection and control systems.

The Company has also established procedures to evaluate its potential remedial liabilities at closed sites which it owns or operates, or to which it transported waste, including 85 sites listed on the Superfund National Priorities List ("NPL") as of March 31, 2000. The majority of situations involving NPL sites relate to allegations that subsidiaries of the Company (or their predecessors) transported waste to the facilities in question, often prior to the acquisition of such subsidiaries by the Company. The Company routinely reviews and evaluates sites that require remediation, including NPL sites, giving consideration to the nature (e.g., owner, operator, transporter, or generator), and the extent (e.g., amount and nature of waste hauled to the location, number of years of site operation by the Company, or other relevant factors) of the Company's alleged connection with the site, the accuracy and strength of evidence connecting the Company to the location, the number, connection and financial ability of other named and unnamed potentially responsible parties ("PRPs"), and the nature and estimated cost of the likely remedy. Cost estimates are 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 are jointly and severally 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 such cases, the Company provides for the amount within the range which constitutes its best estimate. If no amount within the range appears to be a better estimate than any other amount, then the Company provides for the minimum amount within the range in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 5, Accounting for Contingencies.

Estimates of the extent of the Company's degree of responsibility for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions and are inherently difficult, and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the ultimate outcome may differ from current estimates. However, the Company believes that its extensive experience in the environmental services business, as well as its involvement with a large number of sites, provides a reasonable basis for estimating its aggregate liability. As additional information becomes available, estimates are adjusted as necessary. While the Company does not anticipate that any such adjustment would be material to its financial statements, it is reasonably possible that technological, regulatory or enforcement developments, the results of environmental studies, the non-existence or inability of other PRPs to contribute to the settlements of such liabilities, or other factors could necessitate the recording of additional liabilities which could be material.

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

Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated (3.0% at March 31, 2000 and 2% at December 31, 1999) until expected time of payment and then discounted to present value (6.5% at March 31, 2000 and 5.5% at December 31, 1999). The accretion of the interest related to the discounted environmental liabilities is included in the annual calculation of the landfill's final closure and post-closure cost per ton and is charged to operating expense as landfill airspace is consumed.

From time to time, the Company and certain of its subsidiaries are named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of a Company subsidiary having allegedly owned, operated or transported waste to a disposal facility which is alleged to have contaminated the environment or, in certain cases, conducted environmental remediation activities at such sites. While the Company believes it has meritorious defenses to these lawsuits, their ultimate resolution is often substantially uncertain due to a number of factors, and it is possible such matters could have a material adverse impact on the Company's earnings for one or more quarters or years.

The Company has filed suit against numerous insurance carriers seeking reimbursement for past and future environmentally related remedial, defense and tort claim costs at a number of sites. Carriers involved in these matters have typically denied coverage and are defending against the Company's claims. While the Company is vigorously pursuing such claims, it regularly considers settlement opportunities when appropriate terms are offered.

6. COMMITMENTS AND CONTINGENCIES

Financial instruments -- Letters of credit, performance bonds and other guarantees have been provided by the Company to support tax-exempt bonds, performance of landfill final closure and post-closure requirements, insurance contracts, and other contracts. The insurance policies are issued by a wholly-owned insurance company subsidiary, the sole business of which is to issue such policies to customers of the Company. In those instances where the use of captive insurance is not acceptable, the Company has available alternative bonding mechanisms. The Company has not experienced difficulty in obtaining performance bonds or letters of credit for its current operations. Because virtually no claims have been made against these financial instruments in the past, management does not expect these instruments will have a material adverse effect on the Company's consolidated financial statements.

Environmental matters -- The continuing business in which the Company is engaged 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

increase in the future as a result of legislation or regulation, however, the Company believes that in general it tends to benefit when environmental regulation increases, which may increase the demand for its services, and that it has the resources and experience to manage environmental risk. See Note 5 for further discussion.

Litigation-- In February 1998, WM Holdings announced a restatement of prior-period earnings for 1991 and earlier as well as for 1992 through 1996 and the first three quarters of 1997. Many actions were brought or claims made against WM Holdings as a result of this restatement, as set forth in earlier annual and quarterly reports made by the Company. The Company has resolved many of these actions and claims, as discussed in earlier filings, including the settlement, in January 2000, of two actions, one pending in Illinois state court and the other in Florida federal court. The following actions, however, remain outstanding.

In July 1998, a business owner who received WM Holdings common stock in the sale of his business to WM Holdings brought a purported class action against that company alleging breach of warranty. In April 1999, the court in that action granted summary judgment against WM Holdings and in favor of the individual plaintiff. In October 1999, the court certified a class consisting of all sellers of business assets to WM Holdings between January 1, 1990, and February 24, 1998, whose purchase agreements with WM Holdings contained express warranties regarding the accuracy of WM Holdings' financial statements. In March 1999, the court of appeals upheld this certification order. Also in March 1999, the trial court granted summary judgment on the claim of breach of warranty against WM Holdings and in favor of all members of the class except for a discrete group of plaintiffs whose claims may have expired under applicable statutes of limitations. The extent of damages, if any, in this class action has not yet been determined.

In February and March 2000, two asset sellers who otherwise would have been included in the above class, as currently defined, brought separate actions against the Company for breach of contract and fraud, among other things. One of the suits arises out of a transaction valued at over \$200 million at the time of closing in 1996, while the other involves a transaction in excess of \$11 million at its closing in 1995. Both suits are in their early stages and the extent of possible damages, if any, has not yet been determined.

In December 1999, a sole plaintiff brought an action against the Company, five former officers of WM Holdings, and WM Holdings' auditors 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. The defendants have removed this action to federal court but the case has been remanded back to the state forum. This action is in its early stages and the extent of possible damages, if any, has not yet been determined.

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

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

In March and April 1999, two former officers of WM Holdings sued the Company for retirement and other benefits. These actions are in their early stages and the extent of possible damages, if any, has not yet been determined. Additionally, a third former officer brought a similar claim, that was subsequently dismissed,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

in March 2000. The newest action included claims related to the decision by the board of WM Holdings to recommend the merger of WM Holdings with the Company.

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced a further reduction in its expected earnings for that period and that its reported operating income for the three months ended March 31, 1999 may have included certain unusual pretax income items. More than 30 lawsuits that purport to be based on one or more of these announcements were filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. These actions have been consolidated into a single action. On September 7, 1999, a lawsuit was filed against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Texas. Pursuant to a joint motion this case was transferred to the United States District Court for the Southern District of Texas, to be consolidated with the consolidated action pending there. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 16, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock between March 31, 1999 and July 6, 1999 at prices allegedly known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the court deems proper. The case is at an early stage and the extent of possible damages, if any, can not yet be determined.

The Company is defending a lawsuit and two arbitration actions initiated by individuals who received common stock in sale of their business to the Company or to a company later acquired by the Company. The first of these actions was filed in state court in Oregon in November 1999. Subsequently, two arbitrations have been initiated, both related to the sale of businesses to Eastern Environmental Services, Inc. ("Eastern"). For reasons similar to those alleged in the class actions described above, or for reasons related to their acquisition by Eastern, these individuals allege that the stock they received was overvalued. These cases are in an early stage and the extent of possible damages, if any, have not yet been determined.

In addition, three of the Company's shareholders have filed purported derivative lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. Two of these lawsuits were filed in the Delaware Court of Chancery on July 16, 1999 and August 18, 1999, respectively, and one was filed in the United States District Court for the Southern District of Texas on July 27, 1999. The Delaware cases have been consolidated and the plaintiffs have filed an amended consolidated complaint. The amended complaint alleges claims relating to the Company's 1999 annual and quarterly earnings, sales of Company stock by certain of the Company's officers and directors, and alleged self-dealing by certain Company's officers. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged common stock sales during the three months ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper. The defendants have not yet been required to respond to the complaints.

Beginning at year end 1999 the Company became involved in a series of disputes with Louis D. Paolino, former President and Chief Executive Officer of Eastern and others in connection with the merger between the Company and Eastern ("the Eastern Merger"). The Company alleges, among other things, that the defendants usurped Eastern corporate opportunities for personal gain and otherwise mismanaged certain

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

affairs of Eastern. Mr. Paolino and others allege that the Company and unnamed others committed security fraud alleging that the stock they were issued in connection with the Eastern Merger was over-valued because the Company failed to disclose that it was having problems integrating the operations of WM Holdings and the Company after the WM Holdings Merger. These disputes are in an early state and the extent that the Company may recover damages, if any, or be required to pay damages, if any, has not yet been determined.

The Company is aware of a lawsuit filed in state court in Houston, Texas by several related shareholders against the Company and three of its former officers. The Company has not been served. The petition alleges that the plaintiffs are substantial shareholders of the Company's common stock who intended to sell their stock in 1999, but that the individual defendants made false and misleading statements regarding the Company's prospects that induced the plaintiffs to retain their stock. Plaintiffs assert that the value of their retained stock declined dramatically. Plaintiffs asserted claims for fraud, negligent misrepresentation, and conspiracy. As neither the Company nor the individual defendants have been served in this action, the defendants have filed no responsive pleadings in the action.

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

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

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

The Company received a Civil Investigative Demand ("CID") from the Antitrust Division of the United States Department of Justice in July 1999 inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the United States Department of Justice with certain documents to assist it in its inquiry with which the Company is fully cooperating.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purported to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the Plan. On behalf of the purported class, the plaintiff sought compensatory and punitive damages, costs, restitution with interest, and such relief as the Court deemed proper. On July 29, 1999, the Company announced that it had determined to proceed with the termination of the Plan, liquidating the Plan's assets and settling its obligations to participants. The plaintiff voluntarily dismissed her case on September 13, 1999. However, that same day, the same attorneys filed another Plan-related putative class action against the Company and various individual defendants in the United States District Court for the Middle District of Alabama, Northern Division. This case, brought by a different putative class representative, alleges that the defendants violated the federal Employee Retirement Income Security Act ("ERISA") by failing to terminate the Plan in accordance with its terms, by failing to manage Plan assets prudently and in the interests of Plan participants, and by delaying the Plan's termination date and the expected distribution of lump-sum pension benefits. On behalf of the purported class, the plaintiff seeks declaratory and injunctive relief, restitution of all losses and expenses allegedly incurred by the Plan,

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

payment of all benefits allegedly owed to Plan participants, attorney's fees and costs, and other "appropriate" relief under the Internal Revenue Code, ERISA and the Plan. The case is in its early stages and the extent of possible damages, if any, can not yet be determined.

The continuing business in which the Company is engaged is intrinsically connected with the protection of the environment and the potential for the unintended or unpermitted discharge of materials into the environment. In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the foreign, federal, state, and local level, including, in certain instances, proceedings instituted by citizens or local governmental authorities seeking to overturn governmental action where governmental officials or agencies are named as defendants together with the Company or one or more of its subsidiaries, or both. In the majority of the situations where proceedings are commenced by governmental authorities, the matters involved related to alleged technical violations of licenses or permits pursuant to which the Company operates or is seeking to operate or laws or regulations to which its operations are subject or are the result of different interpretations of applicable requirements. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of March 31, 2000, there were four proceedings involving Company subsidiaries where the sanctions involved could potentially exceed \$100,000. The Company believes that these matters will not have a material adverse effect on its results of operations or financial condition. However, the outcome of any particular proceeding cannot be predicted with certainty, and the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time.

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

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

In June 1999, the Company was notified that the EPA is conducting a civil investigation of alleged chlorofluorocarbons ("CFC") disposal violations by Waste Management of Massachusetts, Inc. ("WMMMA"), one of the Company's wholly owned subsidiaries, to determine whether further enforcement measures are warranted. The activities giving rise to the allegations of CFC disposal violations appear to have

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

occurred prior to July 30, 1998. On July 29, 1998, the EPA inspected WMMA's operations, notified the Company of the alleged violations and issued an Administrative Order in January 1999 requiring WMMA to comply with the CFC regulations. WMMA is cooperating with the investigation and the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's financial statements.

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

As of March 31, 2000, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 85 locations listed on the NPL. Of the 85 NPL sites at which claims have been made against the Company, 17 are sites which the Company has come to own over time. All of the NPL sites owned by the Company were initially developed by others as land disposal facilities. At each of the 17 owned facilities, the Company is working in conjunction with the government to characterize or remediate identified site problems. In addition, at these 17 facilities, the Company has either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The 68 NPL sites at which claims have been made against the Company and which are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of a governmental decision as to the appropriate remedy and an agreement among liable parties as to the share each will pay for implementing that remedy. At others where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, the Company's future costs are uncertain. Any of these matters could have a material adverse effect on the Company's financial statements.

In November 1998, the Company was sued by the estate of Shayne Conner, who died on November 24, 1995 in Greenland, New Hampshire. Plaintiffs allege that Mr. Conner's death was caused by biosolids that were applied to a nearby field by the Company's BioGro business unit. The litigation is currently in the discovery phase, and the Company is preparing a rebuttal to plaintiff's expert report on causation. The Company is vigorously defending itself in the litigation.

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

The Company and certain of its subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of their business. The outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty and these matters could have a material adverse impact on the Company's financial statements.

7. SEGMENT AND RELATED INFORMATION

NASW operations is the Company's principal reportable segment. This segment provides integrated waste management services consisting of collection, transfer, disposal (solid waste landfill, hazardous waste landfill and waste-to-energy facilities), recycling, and other miscellaneous services to commercial, industrial, municipal and residential customers in North America, including the United States, Puerto Rico, Mexico and Canada. Similar operations in international markets outside of North America are disclosed as a separate segment under WM International, which includes operations in Europe, the Pacific Rim, South America and Israel. The Company's other reportable segment consists of non-solid waste services, aggregated as a single segment for this reporting presentation. The non-solid waste segment includes other hazardous waste services such as chemical waste management services and low-level and other radioactive waste management services, the Company's independent power projects, and other non-solid waste services to commercial, industrial and government customers, and includes business lines that are being actively marketed and considered to be held for sale.

Summarized financial information concerning the Company's reportable segments is shown in the following table.

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	CORPORATE FUNCTIONS(A)	TOTAL
	-----	-----	-----	-----	-----
THREE MONTHS ENDED:					
March 31, 2000					

Net operating revenues(b).....	\$2,707,983	\$401,484	\$107,842	\$ --	\$3,217,309
Earnings before interest and taxes (EBIT)(c),(d).....	529,606	70,055	12,173	(194,661)	417,173
March 31, 1999					

Net operating revenues(b).....	\$2,511,533	\$371,091	\$188,011	\$ --	\$3,070,635
Earnings before interest and taxes (EBIT)(c),(d).....	673,515	34,991	24,363	44,713	777,582

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (a) Corporate functions include the corporate treasury function (except for limited amounts of locally negotiated and managed project debt), administration of corporate tax function, the corporate insurance function, management of closed landfill and related insurance recovery functions, other typical administrative functions and certain inter-segment transactions.
- (b) Non-solid waste revenues are net of inter-segment revenue with NASW of \$4.2 million and, \$17.9 million, for the three months ended March 31, 2000 and 1999 respectively. There are no other significant sales between segments.
- (c) For those items included in the determination of EBIT (the earnings measurement used by management to evaluate operating performance), the accounting policies of the segments are generally the same as those described in the summary of significant accounting policies in the Company's Form 10-K for the year ended December 31, 1999.
- (d) There are no material asymmetrical allocations of EBIT versus assets between segments or corporate. Certain asset impairments and unusual items reported in the reconciliation of EBIT to reported net income below, however, have resulted in adjustments to assets ultimately reflected on segment balance sheets. Assets are net of inter-segment receivables and investments.

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
EBIT, as reported above(a).....	\$ 417,173	\$ 777,582
Less:		
Merger and acquisition related costs.....	--	17,484
Asset impairments and unusual items.....	103,353	--
Income from operations.....	313,820	760,098
Interest expense.....	(210,209)	(176,157)
Interest income.....	8,848	2,818
Minority interest.....	(5,972)	(6,462)
Other income, net.....	13,366	14,363
Income before income taxes.....	119,853	594,660
Provision for income taxes.....	64,850	247,972
Net income.....	\$ 55,003	\$ 346,688

- (a) EBIT is defined as income from operations excluding merger and acquisition related costs and asset impairments and unusual items.

8. OPERATIONS HELD FOR SALE

During the third quarter of 1999, the Company's Board of Directors adopted a strategic plan, one element of which is for the Company to market for sale its WM International operations, significant portions of its domestic non-core businesses and selected NASW operations. As discussed in Note 2 to the financial statements in the Company's Form 10-K for the year ended December 31, 1999, the Company has recorded charges to write down certain of these assets. Additionally, the Company recorded a charge in the first quarter of 2000 to asset impairments and unusual items of approximately \$24.8 million related primarily to the Company's WM International operations, which are held for sale, that have a carrying value greater than management's best current estimate of anticipated proceeds. In determining fair value, the Company considered, among other things, the range of preliminary purchase prices being discussed with potential

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

buyers. These businesses' results of operations are included in revenues and expenses in the accompanying statement of operations.

Operational information included in the statements of operations regarding the businesses classified as operations held for sale at March 31, 2000, is as follows (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
	-----	-----	-----	-----
THREE MONTHS ENDED:				
March 31, 2000				
Operating revenues.....	\$123,259	\$401,484	\$54,218	\$578,961
Earnings before interest and taxes(a)...	11,372	70,055	12,466	93,893
THREE MONTHS ENDED:				
March 31, 1999				
Operating revenues.....	\$113,102	\$371,091	\$68,312	\$552,505
Earnings before interest and taxes(a)...	2,688	34,991	10,985	48,664

(a) EBIT is defined as income from operations excluding merger and acquisition related costs and asset impairments and unusual items.

The Company has classified as current operations held for sale its WM International operations and certain domestic operations, which management believes will be divested prior to March 31, 2001. The Company has classified as non-current operations held for sale its surplus real estate portfolio.

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
	-----	-----	-----	-----
As of March 31, 2000:				
Accounts receivable, net.....	\$ 26,715	\$ 353,693	\$ 33,953	\$ 414,361
Other current assets.....	13,902	203,842	13,654	231,398
Property and equipment and other non-current assets.....	657,019	2,220,035	103,334	2,980,388
Current maturities of long-term debt.....	(2,344)	(65,224)	--	(67,568)
Other current liabilities.....	(19,638)	(453,045)	(58,465)	(531,148)
Long-term debt, less current maturities...	(54,326)	(202,250)	--	(256,576)
Other noncurrent liabilities.....	(20,245)	(394,655)	(14,493)	(429,393)
Minority interest.....	--	(109,096)	(4,204)	(113,300)
Net operations held for sale....	\$601,083	\$ 1,553,300	\$ 73,779	\$ 2,228,162
	=====	=====	=====	=====
Current assets:				
Operations held for sale.....	\$655,139	\$ 2,777,570	\$150,941	\$ 3,583,650
Long-term assets:				
Operations held for sale (included in other assets).....	42,497	--	--	42,497
Current liabilities:				
Operations held for sale.....	(96,553)	(1,224,270)	(77,162)	(1,397,985)
Long-term liabilities:				
Operations held for sale (included in other liabilities).....	--	--	--	--
Net operations held for sale....	\$601,083	\$ 1,553,300	\$ 73,779	\$ 2,228,162
	=====	=====	=====	=====

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

At December 31, 1999, the Company classified as current operations held for sale its WM International operations and certain domestic operations. The Company classified as non-current operations held for sale certain NASW operations, which the Company had committed to sell to Allied Waste Industries, Inc. ("Allied") in connection with the Company's purchase of certain of Allied's operations, as well as the Company's surplus real estate portfolio.

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
	-----	-----	-----	-----
As of December 31, 1999:				
Accounts receivable, net.....	\$ 36,506	\$ 364,552	\$ 32,550	\$ 433,608
Other current assets.....	14,311	208,842	14,990	238,143
Property and equipment and other non-current assets.....	737,072	2,271,611	108,400	3,117,083
Current maturities of long-term debt....	(2,339)	(51,817)	--	(54,156)
Other current liabilities.....	(23,854)	(481,617)	(62,267)	(567,738)
Long-term debt, less current maturities.....	(57,871)	(212,629)	--	(270,500)
Other noncurrent liabilities.....	(37,814)	(347,264)	(13,166)	(398,244)
Minority interest.....	--	(117,676)	(3,705)	(121,381)
	-----	-----	-----	-----
Net operations held for sale....	\$ 666,011	\$ 1,634,002	\$ 76,802	\$ 2,376,815
	=====	=====	=====	=====
Current assets:				
Operations held for sale.....	\$ 534,557	\$ 2,845,005	\$155,940	\$ 3,535,502
Long-term assets:				
Operations held for sale (included in other assets).....	253,331	--	--	253,331
Current liabilities:				
Operations held for sale.....	(118,079)	(1,211,003)	(79,138)	(1,408,220)
Long-term liabilities:				
Operations held for sale (included in other liabilities).....	(3,798)	--	--	(3,798)
	-----	-----	-----	-----
Net operations held for sale....	\$ 666,011	\$ 1,634,002	\$ 76,802	\$ 2,376,815
	=====	=====	=====	=====

9. NEW ACCOUNTING PRONOUNCEMENTS

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

10. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

WM Holdings ("Guarantor"), a wholly-owned subsidiary of Waste Management, Inc. ("Parent"), has fully and unconditionally guaranteed all of the senior indebtedness of the Parent, as well as the Parent's 4% convertible subordinated notes due 2002. The Parent has fully and unconditionally guaranteed all of the senior indebtedness of WM Holdings, as well as WM Holdings' 5.75% convertible subordinated debentures due 2005. However, none of the Company's nor WM Holdings' debt is guaranteed by any of the Parent's indirect subsidiaries or WM Holdings' subsidiaries ("Non-Guarantor"). Accordingly, the following unaudited condensed consolidating balance sheet as of March 31, 2000 and the condensed consolidated balance sheet as of December 31, 1999, the unaudited condensed consolidating statements of operations for the three months ended March 31, 2000 and 1999, along with the related unaudited statements of cash flows, have been provided below (in thousands).

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET
MARCH 31, 2000
(UNAUDITED)

ASSETS

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Current assets:					
Cash and cash equivalents.....	\$ 57,290	\$ 750	\$ 89,382	\$ --	\$ 147,422
Other current assets.....	--	36,604	5,721,996	--	5,758,600
	-----	-----	-----	-----	-----
	57,290	37,354	5,811,378	--	5,906,022
Property and equipment, net.....	--	--	10,136,441	--	10,136,441
Intercompany and investment in subsidiaries.....	11,438,171	5,780,964	(12,744,917)	(4,474,218)	--
Other assets.....	19,257	9,261	6,153,200	--	6,181,718
	-----	-----	-----	-----	-----
Total assets.....	<u>\$11,514,718</u>	<u>\$5,827,579</u>	<u>\$ 9,356,102</u>	<u>\$(4,474,218)</u>	<u>\$22,224,181</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Current maturities of long-term debt.....	\$ 2,290,000	\$ 250,000	\$ 220,371	\$ --	\$ 2,760,371
Accounts payable and other accrued liabilities.....	114,761	348,778	3,738,112	--	4,201,651
	-----	-----	-----	-----	-----
	2,404,761	598,778	3,958,483	--	6,962,022
Long-term debt, less current maturities.....	3,954,745	3,111,989	1,286,215	--	8,352,949
Other liabilities.....	--	--	2,447,484	--	2,447,484
	-----	-----	-----	-----	-----
Total liabilities.....	6,359,506	3,710,767	7,692,182	--	17,762,455
Minority interest in subsidiaries.....	--	--	8,964	--	8,964
Stockholders' equity.....	5,155,212	2,116,812	1,654,956	(4,474,218)	4,452,762
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	<u>\$11,514,718</u>	<u>\$5,827,579</u>	<u>\$ 9,356,102</u>	<u>\$(4,474,218)</u>	<u>\$22,224,181</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 1999

ASSETS

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Current assets:					
Cash and cash equivalents.....	\$ 33,690	\$ 4,496	\$ 143,171	\$ --	\$ 181,357
Other current assets.....	--	36,604	6,002,584	--	6,039,188
	-----	-----	-----	-----	-----
	33,690	41,100	6,145,755	--	6,220,545
Property and equipment, net.....	--	--	10,303,803	--	10,303,803
Intercompany and investment in subsidiaries.....	11,367,467	5,939,729	(13,139,748)	(4,167,448)	--
Other assets.....	27,004	9,795	6,120,277	--	6,157,076
	-----	-----	-----	-----	-----
Total assets.....	<u>\$11,428,161</u>	<u>\$5,990,624</u>	<u>\$ 9,430,087</u>	<u>\$(4,167,448)</u>	<u>\$22,681,424</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Current maturities of long-term debt.....	\$ 2,271,899	\$ 250,000	\$ 576,843	\$ --	\$ 3,098,742
Accounts payable and other accrued liabilities.....	100,978	325,644	3,964,091	--	4,390,713
	-----	-----	-----	-----	-----
	2,372,877	575,644	4,540,934	--	7,489,455
Long-term debt, less current maturities.....	3,953,932	3,507,853	937,561	--	8,399,346
Other liabilities.....	--	--	2,382,337	--	2,382,337
	-----	-----	-----	-----	-----
Total liabilities.....	6,326,809	4,083,497	7,860,832	--	18,271,138
Minority interest in subsidiaries.....	--	--	7,674	--	7,674
Stockholders' equity.....	5,101,352	1,907,127	1,561,581	(4,167,448)	4,402,612
	-----	-----	-----	-----	-----
Total liabilities and stockholders' equity.....	<u>\$11,428,161</u>	<u>\$5,990,624</u>	<u>\$ 9,430,087</u>	<u>\$(4,167,448)</u>	<u>\$22,681,424</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING FINANCIAL STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2000
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$3,217,309	\$ --	\$3,217,309
Costs and expenses.....	--	--	2,903,489	--	2,903,489
Income from operations.....	--	--	313,820	--	313,820
Other income (expense):					
Interest income (expense),					
net.....	(126,471)	(61,879)	(13,011)	--	(201,361)
Equity in subsidiaries, net of					
taxes.....	134,048	172,722	--	(306,770)	--
Minority interest.....	--	--	(5,972)	--	(5,972)
Other, net.....	--	--	13,366	--	13,366
	7,577	110,843	308,203	(306,770)	119,853
Provision for (benefit from)					
income taxes.....	(47,426)	(23,205)	135,481	--	64,850
Net income.....	\$ 55,003	\$134,048	\$ 172,722	\$(306,770)	\$ 55,003
	=====	=====	=====	=====	=====

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 1999
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Operating revenues.....	\$ --	\$ --	\$3,070,635	\$ --	\$3,070,635
Costs and expenses.....	--	--	2,310,537	--	2,310,537
Income from operations.....	--	--	760,098	--	760,098
Other income (expense):					
Interest income (expense),					
net.....	(85,965)	(72,248)	(15,126)	--	(173,339)
Equity in subsidiaries, net of					
taxes.....	400,416	445,571	--	(845,987)	--
Minority interest.....	--	--	(6,462)	--	(6,462)
Other, net.....	--	--	14,363	--	14,363
	314,451	373,323	752,873	(845,987)	594,660
Provision for (benefit from)					
income taxes.....	(32,237)	(27,093)	307,302	--	247,972
Net income.....	\$346,688	\$400,416	\$ 445,571	\$(845,987)	\$ 346,688
	=====	=====	=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2000
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Cash flows from operating activities:					
Net income.....	\$ 55,003	\$ 134,048	\$ 172,722	\$(306,770)	\$ 55,003
Equity in earnings of subsidiaries, net of taxes.....	(134,048)	(172,722)	--	306,770	--
Other adjustments and charges.....	28,913	93,493	497,820	--	620,226
Net cash provided by (used in) operating activities.....	(50,132)	54,819	670,542	--	675,229
Cash flows from investing activities:					
Short-term investments.....	--	--	53,733	--	53,733
Acquisitions of businesses, net of cash acquired.....	--	--	(114,110)	--	(114,110)
Capital expenditures.....	--	--	(248,565)	--	(248,565)
Proceeds from sale of assets.....	--	--	62,022	--	62,022
Other, net.....	--	--	(43,776)	--	(43,776)
Net cash used in investing activities.....	--	--	(290,696)	--	(290,696)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt.....	40,000	--	24,774	--	64,774
Principal payments on long-term debt.....	(21,899)	(396,684)	(63,066)	--	(481,649)
(Increase) decrease in intercompany and investments, net.....	55,631	338,119	(393,750)	--	--
Other, net.....	--	--	874	--	874
Net cash provided by (used in) financing activities.....	73,732	(58,565)	(431,168)	--	(416,001)
Effect of exchange rate changes on cash and cash equivalents.....	--	--	(2,467)	--	(2,467)
Increase (decrease) in cash and cash equivalents.....	23,600	(3,746)	(53,789)	--	(33,935)
Cash and cash equivalents at beginning of period.....	33,690	4,496	143,171	--	181,357
Cash and cash equivalents at end of period.....	\$ 57,290	\$ 750	\$ 89,382	\$ --	\$ 147,422
	=====	=====	=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 1999
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
	-----	-----	-----	-----	-----
Cash flows from operating activities					
Net income.....	\$ 346,688	\$ 400,416	\$ 445,571	\$(845,987)	\$ 346,688
Equity in earnings of subsidiaries, net of taxes.....	(400,416)	(445,571)	--	845,987	--
Other adjustments and changes.....	(786)	35,195	(22,633)	--	11,776
Net cash provided by (used in) operating activities.....	(54,514)	(9,960)	422,938	--	358,464
Cash flows from investing activities					
Short-term investments.....	--	--	(6,466)	--	(6,466)
Acquisitions of businesses, net of cash acquired.....	--	--	(280,797)	--	(280,797)
Capital expenditures.....	--	--	(281,272)	--	(281,272)
Proceeds from sale of assets.....	--	--	275,733	--	275,733
Other, net.....	--	--	4,998	--	4,998
Net cash used in investing activities.....	--	--	(287,804)	--	(287,804)
Cash flows from financing activities					
Proceeds from issuance of long-term debt.....	629,384	--	7,361	--	636,745
Principal payments on long-term debt.....	(519,532)	1,573	(239,258)	--	(757,217)
Proceeds from exercise of common stock options and warrants.....	24,069	--	--	--	24,069
(Increase) decrease in amounts due to and from subsidiaries, net.....	(72,314)	(6,340)	78,654	--	--
Net cash provided by (used in) financing activities.....	61,607	(4,767)	(153,243)	--	(96,403)
Effect of exchange rate changes on cash and cash equivalents.....	--	--	(1,766)	--	(1,766)
Increase (decrease) in cash and cash equivalents.....	7,093	(14,727)	(19,875)	--	(27,509)
Cash and cash equivalents at beginning of period.....	27,726	(48,578)	107,725	--	86,873
Cash and cash equivalents at end of period.....	\$ 34,819	\$ (63,305)	\$ 87,850	\$ --	\$ 59,364
	=====	=====	=====	=====	=====

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. SUBSEQUENT EVENTS

On March 29, 2000, the Company announced that its wholly-owned subsidiary had reached a definitive agreement to sell its nuclear waste services operations to GTS Duratek, Inc. for up to \$65 million in cash, consisting of \$55 million at closing and up to \$10 million in additional cash consideration upon the satisfaction of certain post-closing conditions. The Company expects the sale to be completed in the second quarter of 2000. The transaction is subject to certain regulatory approvals and the other customary conditions.

On March 31, 2000, the Company completed the previously announced purchase of certain of the Canadian solid waste assets of Allied for approximately \$75 million in cash. Under separate agreements, Allied contracted to purchase certain of the Company's domestic solid waste operations, including 11 landfill operations, 21 collection operations, seven transfer stations and a landfill operating contract for approximately \$234 million. On February 15, 2000, the Company completed the sale to Allied of seven of such collection operations, a transfer station and a landfill. On May 1, 2000, the Company completed the sale to Allied of six collection operations, five landfill operations and three transfer stations. The scope of some of the remaining domestic assets to be acquired by Allied from the Company remains under antitrust review. However, the Company expects all such sales to be completed in 2000.

In April of 2000, the Company announced that its wholly-owned subsidiaries had completed the previously announced transactions regarding the sales of waste services operations in the Netherlands and Finland, and the majority interest in Waste Management New Zealand Limited. Additionally, the Company announced that its wholly-owned subsidiary had reached an agreement to sell Pacific Waste Management, its Australian subsidiary, to SITA for \$230 million. Finally, the Company announced that its wholly owned subsidiary had reached an agreement to sell its waste services operations in Italy to Emas S.p.A. and Italcogim S.p.A. for approximately \$70 million. The Australian and Italian sales are expected to be completed in the second quarter of 2000.

On April 25, 2000, the Company announced that it had reached a definitive agreement to sell ten waste collection businesses in Arkansas, Kentucky, Missouri, Nebraska, Oklahoma and Texas, 12 landfills in Arkansas, Kansas, Kentucky, Missouri, Nebraska, Oklahoma and Texas and seven transfer stations in Arkansas, Missouri, Nebraska and Oklahoma to Waste Corporation of America for approximately \$110 million and the assumption of closure and post-closure liabilities. The transaction is expected to be completed in the third quarter of 2000, and is subject to approvals from various state and federal agencies, as well as customary closing conditions.

On May 1, 2000, the Company announced that it had reached a definitive agreement to sell its BioGro business, a leading manager of organic residuals in North America, to Synagro Technologies, Inc. for approximately \$200 million in cash and assumed debt. The Company expects to complete the sale in the second quarter of 2000.

On May 7, 2000, the Company announced that its wholly-owned subsidiary had reached an agreement to sell its waste operations in Germany to Cleanaway Deutschland Holding GmbH for approximately \$80 million. The Company expects the sale to be completed in the second half of 2000.

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

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

- the impact of pending or threatened litigation and/or governmental inquiries and investigation involving the Company.
- the Company's ability to stabilize its accounting systems and procedures and maintain stability.
- the uncertainties to the Company's proposed strategic initiative, including the willingness of prospective purchasers to purchase the assets the Company identifies as divestiture candidates on terms the Company finds acceptable, the timing and terms on which such assets may be sold, uncertainties relating to regulatory approvals and other factors affecting the ability of prospective purchasers to consummate such transactions, including the availability of financing and uncertainties relating to the impact of the proposed strategic initiative on the Company's credit ratings and consequently the availability and cost of debt and equity financing to the Company.
- the Company's ability to successfully integrate the operations of acquired companies with its existing operations, including risks and uncertainties relating to its ability to achieve projected earnings estimates, achieve administrative and operating cost savings and anticipated synergies, rationalize collection routes, and generally capitalize on its asset base and strategic position through its strategy of decentralized decision making; and the risks and uncertainties regarding government-forced divestitures.
- the Company's ability to continue its expansion through the acquisition of other companies, including, without limitation, risks and uncertainties concerning the availability of desirable acquisition candidates, the availability of debt and equity capital to the Company to finance acquisitions, the ability of the Company to accurately assess the prior pre-existing liabilities and assets of acquisition candidates and the restraints imposed by federal and state statutes and agencies respecting market concentration and competitive behavior.
- the effect of competition on the Company's ability to maintain margins on existing or acquired operations, including uncertainties relating to competition with government owned and operated landfills which enjoy certain competitive advantages from tax-exempt financing and tax revenue subsidies.
- the potential impact of environmental and other regulation on the Company's business, including risks and uncertainties concerning the ultimate cost to the Company of complying with final closure requirements and post-closure liabilities associated with its landfills and other environmental liabilities associated with disposal at third party landfills and the ability to obtain and maintain permits necessary to operate its facilities, which may impact the life, operating capacity and profitability of its landfills and other facilities.
- the Company's ability to generate sufficient cash flows from operations to cover its cash needs, the Company's ability to obtain additional capital if needed and the possible default under credit facilities if cash flows are lower than expected or capital expenditures are greater than expected.
- the potential changes in estimates from ongoing analysis of site remediation requirements, final closure and post-closure issues, compliance and other audits and regulatory developments.

- the effectiveness of changes in management and the ability of the Company to retain qualified individuals to serve in senior management positions.
- the effect of price fluctuations of recyclable materials processed by the Company.
- certain risks that are inherent in operating in foreign countries that are beyond the control of the Company, including but not limited to political, social, and economic instability and government regulations.
- the potential impairment charges against earnings related to long-lived assets which may result from possible future business events.
- the effect that recent trends regarding mandating 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 potential impact of government regulation on the Company's ability to obtain and maintain necessary permits and approvals required for operations.

INTRODUCTION

Strategic Plan

In August 1999, the Company's Board of Directors adopted a strategic plan that is intended to enhance value for its shareholders, customers, and employees. The plan's major elements are to:

- Dispose of the Company's non-strategic and under-performing assets, including the Company's international operations outside North America ("WM International"), its non-core assets and up to 10% of its North American solid waste ("NASW") assets.
- Maintain or improve the Company's long-term investment grade characteristics while using disposition proceeds for debt repayment, repurchases of shares and selected tuck-in acquisitions.
- Bring more discipline and accountability to the enterprise while continuing the Company's decentralized business model, which puts authority close to the customer.
- Restore a disciplined capital allocation philosophy that focuses on profits as opposed to growth.
- Give employees the tools they need to do their jobs, including updated and more efficient information systems.

General

Waste Management is one of the largest publicly-owned companies providing integrated waste management services in North America and internationally. In North America, the Company provides solid waste management services throughout the United States and Puerto Rico, as well as in Canada and Mexico, including collection, transfer, recycling and resource recovery services, and disposal services. In addition, the Company is a leading developer, operator and owner of waste-to-energy facilities in the United States. The Company also engages in hazardous waste management services throughout North America, as well as low-level and other radioactive waste services.

Internationally, the Company operates throughout Europe, the Pacific Rim, and South America. Included in the Company's WM International operations is the collection and transportation of solid, hazardous and medical wastes and recyclable materials, and the treatment and disposal of recyclable materials. The Company also operates solid and hazardous waste landfills, municipal and hazardous waste incinerators, water and waste water treatment facilities, hazardous waste treatment facilities, waste-fuel powered independent power facilities, and constructs treatment or disposal facilities for third parties internationally.

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

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

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

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

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

Additionally, to include airspace from an expansion effort, the expansion permit application must generally be expected to be submitted within one year, and the expansion permit must be expected to be received within two to five years. Exceptions to these criteria must be approved through a landfill specific approval process that includes an approval from the Company's Chief Financial Officer and prompt review by the Audit Committee of the Board of Directors. Such exceptions at 35 landfill locations at March 31, 2000 were generally due to permit application processes beyond the one-year limit, which in most cases were due to state-specific permitting procedures. Generally, the Company has been successful in obtaining landfill expansions pursued; however, there can be no assurance that the Company will be successful in obtaining landfill expansions in the future.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 1999

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

	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND 1999 -----	
STATEMENT OF OPERATIONS:		
Operating revenues.....	\$ 146,674	4.8%

Costs and expenses:		
Operating (exclusive of depreciation and amortization shown below).....	278,933	16.6
General and administrative.....	234,073	90.0
Depreciation and amortization.....	(5,923)	(1.7)
Merger and acquisition related costs.....	(17,484)	(100.0)
Asset impairments and unusual items.....	103,353	--

	592,952	25.7

Income from operations.....	(446,278)	(58.7)

Other income (expense):		
Interest expense.....	(34,052)	(19.3)
Interest and other income, net.....	5,033	29.3
Minority interest.....	490	7.6

	(28,529)	(17.2)

Income before income taxes.....	(474,807)	(79.8)
Provision for income taxes.....	(183,122)	(73.8)

Net income.....	\$(291,685)	(84.1)%
	=====	

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
STATEMENT OF OPERATIONS:		
Operating revenues.....	100.0%	100.0%
Costs and expenses:		
Operating (exclusive of depreciation and amortization shown below).....	60.8	54.6
General and administrative.....	15.4	8.5
Depreciation and amortization.....	10.9	11.6
Merger and acquisition related costs.....	--	0.5
Asset impairments and unusual items.....	3.1	--
	90.2	75.2
Income from operations.....	9.8	24.8
Other income (expense):		
Interest expense.....	(6.6)	(5.7)
Interest and other income, net.....	0.7	0.5
Minority interest.....	(0.2)	(0.2)
	(6.1)	(5.4)
Income before income taxes.....	3.7	19.4
Provision for income taxes.....	2.0	8.1
Net income.....	1.7%	11.3%

As previously reported in the Company's Form 10-Q for the quarter ended September 30, 1999 and the Company's Form 10-K for the year ended December 31, 1999, the Company concluded that its internal controls for the preparation of interim financial information during 1999 did not provide an adequate basis for its independent public accountants to complete reviews of the 1999 quarterly financial information in accordance with standards established by the American Institute of Certified Public Accountants.

The Company believes that the processes it used for the preparation of its March 31, 2000 interim financial statements have improved. In addition, the Company has committed substantial resources to mitigate the previously identified control weaknesses. Management believes these efforts have enabled the Company to produce timely and reliable interim financial statements as of March 31, 2000 and for the three months then ended. Management further believes that its processes will continue to improve throughout 2000, allowing it to reduce its reliance on the use of external resources as mitigating controls, although there can be no assurance that this will be the case.

The Company's principal business is its NASW operations, which include all solid waste activities, such as collection, transfer operations, recycling and disposal. The NASW disposal operations encompass solid waste and hazardous waste landfills, as well as waste-to-energy facilities. In addition, the Company operates outside of North America in activities similar to its NASW operations through its WM International operations. As previously discussed, the Company's Board of Directors adopted a plan in 1999 to divest its WM International operations. Additionally, the Company performs certain non-solid waste services, primarily in North America, such as low-level and other radioactive waste management, and operates waste-fuel powered independent power facilities. The Company announced in March 2000 that, in accordance with its strategic plan, one of its subsidiaries had entered into an agreement to sell all of its low-level and other radioactive waste service operations. Through June 30, 1999, the Company's non-solid waste services also included non-land disposal hazardous waste operations and on-site industrial cleaning services located in North America. However, on June 30, 1999, the Company sold a 51% interest in these operations to Vivendi S.A. The Company retained interest of 49% is being accounted for using the equity method of accounting.

Operating Revenues

For the three months ended March 31, 2000, the Company's operating revenues increased \$146.7 million, or 4.8% as compared to the corresponding 1999 period. The following presents the operating revenues by reportable segment for the respective periods (dollars in millions):

	THREE MONTHS ENDED MARCH 31,			
	2000		1999	
NASW.....	\$2,708.0	84.2%	\$2,511.5	81.8%
WM International.....	401.5	12.5	371.1	12.1
Non-solid waste.....	107.8	3.3	188.0	6.1
Operating revenues.....	\$3,217.3	100.0%	\$3,070.6	100.0%

The increase in the Company's operating revenues for the quarter ended March 31, 2000 is primarily due to NASW operations. The following table presents the Company's mix of operating revenues from NASW for the respective periods (dollars in millions):

	THREE MONTHS ENDED MARCH 31,			
	2000		1999	
NASW:				
Collection.....	\$1,861.6	58.4%	\$1,789.3	60.5%
Disposal.....	803.8	25.2	758.6	25.7
Transfer.....	322.4	10.1	265.6	9.0
Recycling and other.....	202.6	6.3	143.2	4.8
	3,190.4	100.0%	2,956.7	100.0%
Intercompany.....	(482.4)		(445.2)	
Operating revenues.....	\$2,708.0		\$2,511.5	

The increase in operating revenues in the first quarter of 2000 for NASW as compared to the prior year period is primarily attributable to internal growth of comparable operations. The increase in operating revenues due to internal growth of NASW operations was \$132.3 million, or 5.3%, comprised of 1.4% for pricing increases and 3.9% for volume increases. The improvements in pricing were favorably impacted by the improvements in the commodities markets for recyclable materials as well as a fuel surcharge that was implemented in certain operations during March 2000. Additionally, the Company's NASW operating revenues increased \$79.7 million due to acquisitions primarily of collection operations throughout the United States and \$4.0 million related to the foreign currency fluctuation of the Canadian dollar. Offsetting the increase in operating revenues was a decline in operating revenues of \$19.5 million associated with divestitures of NASW businesses.

The operating revenues from the Company's WM International operations increased \$30.4 million, or 8.2%, in the first quarter of 2000 as compared to the prior year period. This increase in operating revenues is due to acquisitions of solid waste businesses, primarily in Europe and Australia, with operating revenues of approximately \$65.4 million in the first quarter of 2000, as well as internal growth of comparable operations of 1.0%. However, the increase in operating revenues from the Company's WM International operations was negatively impacted by the decline in operating revenues of \$37.3 million due to fluctuations in foreign currency.

Operating revenues for non-solid waste services decreased in the first quarter of 2000 as compared to the prior year period due to the June 1999 sale of a 51% interest in certain non-solid waste operations, as previously discussed herein. However, this decrease was partially offset by the increase in operating revenues associated with the acquisition of a geosynthetic manufacturing and installation service company in July 1999. The Company expects decreasing operating revenues from its non-solid waste operations in future periods as

the Company has entered into agreements for the sale of, or is actively marketing, its non-solid waste operations pursuant to its strategic plan.

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

Operating costs and expenses increased \$278.9 million or 16.6% in the first quarter of 2000, as compared to the first quarter of 1999. As a percentage of operating revenues, operating costs and expenses increased from 54.6% in the first quarter of 1999 to 60.8% in the first quarter of 2000. The increase in operating costs and expenses in the respective periods is due to internal revenue growth and acquisitions of businesses, net of dispositions. Additionally, the Company realized certain short-term cost reductions through the first quarter of 1999 from its integration plan that was adopted in connection with the Company's merger with Waste Management Holdings, Inc. ("WM Holdings") which was completed in July 1998 (the "WM Holdings Merger"). The integration plan included significant employee headcount reductions (particularly including supervisory operating personnel), the elimination of excess operating capacity through the sale or abandonment of certain assets and operations, and the reconfiguration of operations within certain domestic markets in which the Company operates. However, due to the breadth and comprehensive nature of the changes the Company attempted to implement in 1999, the Company was unable to sustain the effectiveness of its integration plan. As a result, operating costs and expenses increased significantly as a percentage of revenues in the second half of 1999 and in 2000 because the short-term cost reductions experienced in the first quarter of 1999 were not sustained in these subsequent periods.

As part of its ongoing operations, the Company reviews its reserve requirements for remediation and other environmental matters based on an analysis of, among other things, the regulatory context surrounding landfills, site-specific environmental issues and remaining airspace capacity in light of changes in operational efficiencies. Accordingly, revisions to remediation reserve requirements may result in upward or downward adjustments to income from operations in any given period. Adjustments for final closure and post-closure estimates are accounted for prospectively over the remaining capacity of the operating landfill. The impact of revisions to remedial, environmental and other similar liabilities resulted in a reduction of operating costs and expenses as a percentage of revenues of 1.9% in the first quarter of 1999. There were no such adjustments in the first quarter of 2000.

General and Administrative

General and administrative expenses increased \$234.1 million or 90.0% in the first quarter of 2000 as compared to the 1999 period. As a percentage of operating revenues, the Company's general and administrative expenses were 15.4% and 8.5% for the three months ended March 31, 2000 and 1999, respectively. As discussed above, the Company believes it experienced short-term cost reductions related to the elimination of duplicate corporate administrative functions from the WM Holdings Merger through the second quarter of 1999. Such cost reductions were substantially offset in the second half of 1999 and the first quarter of 2000 by the effect of difficulties encountered by the Company in integrating the operations of WM Holdings, including increased administrative costs in field operations attributable to increased costs to perform billing, collections and other administrative functions. Additionally, the Company experienced significant cost increases in its corporate administrative functions for items such as additional personnel and professional accounting and consulting services in the first quarter of 2000 that became necessary as a result of the ineffectiveness of the WM Holdings Merger integration plan.

Depreciation and Amortization

Depreciation and amortization expense decreased \$5.9 million or 1.7% for the first quarter of 2000 as compared to the first quarter of 1999. As a percentage of operating revenues, depreciation and amortization expense was 10.9% and 11.6% for the quarters ended March 31, 2000 and 1999, respectively. The decrease in depreciation and amortization expense as a percentage of operating revenues is primarily due to the suspension of depreciation on fixed assets related to certain operations which were held for sale as of December 31, 1999. The depreciation suspension in the first quarter of 2000 for these operations held for sale was \$51.0 million, or 1.6% of operating revenues for the first quarter of 2000. The suspension of depreciation was partially offset by

an increase of \$32.8 million, or 1.0% of operating revenues, in landfill depletion, which is primarily due to increased landfill volumes and depletion rates.

Merger and Acquisition Related Costs, Asset Impairments and Unusual Items

The Company is in the process of settling its obligations under the Company's qualified defined benefit plan (the "Plan"). The Plan was terminated as of October 31, 1999 in connection with the WM Holdings Merger. Termination benefits that were paid to certain plan participants in the first quarter of 2000 from the trust fund assets of the Plan as well as other customary Plan period costs resulted in a non-cash charge to asset impairments and unusual items of approximately \$78.6 million for the quarter.

Additionally, the Company recorded a charge in the first quarter of 2000 to asset impairments and unusual items of approximately \$24.8 million related to operations held for sale that have a carrying value greater than management's best current estimate of anticipated proceeds.

In connection with merger transactions that the Company completed in 1998, the Company incurred approximately \$33.1 million of costs in the first quarter of 1999 that were transitional in nature. Such costs included transitional wages and other reorganizational costs. Offsetting these costs was an adjustment of \$15.6 million primarily to conform accounting methods of the Company's ash monofil landfills to that of its solid waste landfills.

Income from Operations

Income from operations was \$313.8 million and \$760.1 million for the quarters ended March 31, 2000 and 1999, respectively, for the reasons discussed above.

Other Income and Expenses

Other income and expenses consists of interest expense, interest income, other income (including gains and losses on sales of businesses) and minority interest. The most significant of these is interest expense. The increase in interest expense is primarily due to the decline in the Company's public credit ratings during the last six months of 1999, as well as a general market increase in interest rates since the first quarter of 1999. Furthermore, the Company has experienced a decrease in the amount of interest it has capitalized from \$11.1 million in the first quarter of 1999 to \$4.3 million during the first quarter of 2000.

Other income in the quarter ended March 31, 2000 also includes a net gain of approximately \$11.1 million on the sale of certain NASW operations in accordance with the Company's strategic plan to divest of non-strategic and underperforming assets.

Provision for Income Taxes

The Company recorded a provision for income taxes of \$64.9 million and \$248.0 million for the three months ended March 31, 2000 and 1999, respectively. The difference between the federal income taxes at the federal statutory rate and the provision for income taxes for the three months ended March 31, 2000 is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles and non-deductible costs associated with additional impairment charges in the first quarter associated with certain foreign businesses.

Net Income

For the three months ended March 31, 2000 and 1999, net income was \$55.0 million and \$346.7 million or \$0.09 and \$0.55 per share on a diluted basis, respectively, for the reasons discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates in an industry that requires a high level of capital investment. The Company's capital requirements primarily stem from (i) its working capital needs for its ongoing operations, (ii) capital expenditures for construction and expansion of its landfill sites, as well as new trucks and equipment for its

collection operations, (iii) refurbishments and improvements at its waste-to-energy facilities and (iv) business acquisitions. The Company's strategy is to meet these capital needs first from internally generated funds. Historically, the Company has also obtained financing from various financing sources available at the time, including the incurrence of debt and the issuance of its common stock. In August 1999, the Company announced a strategic plan that included the sale of certain assets included in its WM International operations, its non-core assets and up to 10% of its NASW operations. The proceeds from these dispositions, which are primarily expected to be realized in 2000, will be utilized for debt repayment, repurchases of shares and selected tuck-in acquisitions. Although the Company has unused and available credit capacity under its domestic bank facilities of \$1.5 billion at March 31, 2000, the Company expects reductions in bank line availability as debt levels are decreased in connection with the strategic plan. In connection with its strategic plan, the Company's acquisition activity has decreased as compared to prior years and the divestiture activity has increased. Therefore, the Company's level of capital expenditures is expected to decline along with its needs for large amounts of credit capacity.

In December 1999, the Company received unanimous approval for amendments to its Syndicated Facility, Credit Facility and Eurocurrency bank credit facilities. The approvals provided permanent amendments to the waivers previously granted to the Company related to its operating results for the third quarter of 1999. Additionally, the amended terms and conditions of the facilities contain the necessary provisions for the Company to proceed with divestitures pursuant to its strategic plan. Through May 10, 2000, the Company has announced agreements for sales of assets pursuant to its strategic plan from its WM International, non-solid waste, and NASW operations with proceeds totaling \$1.3 billion. The proceeds collected related to its strategic plan are in excess of \$500 million, substantially all of which has been received since March 31, 2000.

Under the terms of the Syndicated Facility and Credit Facility, the Company is obligated to repay its indebtedness under such facilities with the cash proceeds to be received from the divestitures of its strategic plan. Specifically, the Company must use all of the first \$1.5 billion of net proceeds it receives from the sales of any domestic operations to repay indebtedness under the Syndicated Facility and Credit Facility. Additionally, 50% of the net proceeds greater than \$1.5 billion but less than \$2.5 billion from sales of domestic operations must be used to repay indebtedness under such facilities. Finally, all net proceeds from the divestiture of the Company's WM International operations were required to be used to repay indebtedness under the Company's Eurocurrency facilities, all of which indebtedness, as described in Note 1 to the financial statements, has been repaid. The net proceeds from WM International divestitures received by the Company after the repayment of the Eurocurrency facilities are subject to the same requirements to repay the Syndicated Facility and Credit Facility as net proceeds received from the sales of domestic operations. Subsequent to March 31, 2000, the Company repaid and terminated its Eurocurrency term loans with net proceeds from its WM International divestiture activity.

The Company has obtained amendments to the Syndicated Facility and Credit Facility agreements for the quarter ended March 31, 2000 to maintain compliance with certain financial ratios. The Company anticipates that it may need to obtain further amendments to its existing financial covenants in those agreements in future quarters and, therefore, expects to restructure its covenant requirements during the renewal process for its Syndicated Facility in mid-2000. Until such restructuring is completed, the Company will continue to classify the borrowings outstanding under its Syndicated Facility and Credit Facility as short-term obligations. There can be no assurance that the Company will be successful in obtaining a restructuring of its covenant requirements and failure to obtain such a restructuring or additional amendments or waivers, would, in the event of an actual violation by the Company, have an adverse effect on the Company's financial condition, results of operations and cash flows.

During the last six months of 1999, the Company experienced a decline in its public credit ratings which curtailed its access to the commercial paper market. All outstanding commercial paper was redeemed by March 1, 2000. The Company does not expect that it will be in a position to reissue commercial paper in the foreseeable future. Additionally, as a result of a decline in its credit ratings, the Company expects to incur substantially higher costs of financing for the foreseeable future as compared to prior years should it attempt any capital market activity. Should any of the Company's bonding sources become unavailable without

replacement from other bonding sources, the Company would have to utilize its bank lines, which are at significantly higher rates, for replacement purposes.

As of March 31, 2000, the Company had a working capital deficit of \$1.1 billion (a ratio of current assets to current liabilities of 0.85:1) and a cash balance of \$147.4 million, which compares to a working capital deficit of \$1.3 billion (a ratio of current assets to current liabilities of 0.83:1) and a cash balance of \$181.4 million at December 31, 1999. For the quarter ended March 31, 2000, cash used to acquire businesses of \$114.1 million, capital expenditures of \$248.6 million and net debt reductions of approximately \$416.9 million were primarily financed with cash flows from operating activities of \$675.2 million and proceeds from the sale of assets of \$62.0 million. Favorably impacting cash flows from operations for the quarter ended March 31, 2000 was a tax refund of approximately \$200 million and improvements in the Company's accounts receivable average days sales outstanding. For the quarter ended March 31, 1999, cash used to acquire businesses of \$280.8 million, capital expenditures of \$281.3 million and net debt reductions of approximately \$120.5 million were primarily financed with cash flows from operating activities of \$358.5 million and proceeds from the sale of assets of \$275.7 million.

From December 15, 1999 through March 16, 2000, the Company repurchased \$429.0 million of its 5.75% convertible subordinated notes due 2005 with funds available from internally generated cash flows and its domestic credit facilities. The Company has a scheduled maturity of \$250 million of senior notes on October 15, 2000. The Company expects to repay the notes with funds available from its domestic credit facilities.

The Company has material financial commitments for the costs associated with its future obligations for final closure, which is the closure of the landfills and the capping of the final uncapped areas of the landfills, and for post-closure of the landfills it operates or for which it is otherwise responsible. The final closure and post-closure liabilities are charged to expense as airspace is consumed such that the present value of total estimated final closure and post-closure cost will be accrued for each landfill at the time each site discontinues accepting waste and is closed. The Company has also established procedures to evaluate its potential remedial liabilities at closed sites which it owns or operated, or to which it transported waste, including 85 sites listed on the NPL. The majority of situations involving NPL sites relate to allegations that subsidiaries of the Company (or their predecessors) transported waste to the facilities in question, often prior to the acquisition of such subsidiaries by the Company. In instances in which the Company has concluded that it is probable that a liability has been incurred, an accrual has been recorded in the financial statements.

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

RECENT DEVELOPMENTS

On March 29, 2000, the Company announced that its wholly-owned subsidiary had reached a definitive agreement to sell its nuclear waste services operations to GTS Duratek, Inc. for up to \$65 million in cash, consisting of \$55 million at closing and up to \$10 million in additional cash consideration upon the satisfaction of certain post-closing conditions. The Company expects the sale to be completed in the second quarter. The transaction is subject to certain regulatory approvals and other customary conditions.

On March 31, 2000, the Company completed the previously announced purchase of certain of the Canadian solid waste assets of Allied Waste Industries, Inc. ("Allied") for approximately \$75 million in cash.

Under separate agreements, Allied contracted to purchase certain of the Company's U.S. solid waste operations, including 11 landfill operations, 21 collection operations, seven transfer stations and a landfill operating contract for approximately \$234 million. On February 15, 2000, the Company completed the sale to Allied of seven of such collection operations, a transfer station and a landfill. On May 1, 2000, the Company completed the sale to Allied of six collection operations, five landfill operations and three transfer stations. The scope of some of the remaining U.S. assets to be acquired by Allied from the Company remains under anti-trust review. However, the Company expects all such sales to be completed in 2000.

In April of 2000, the Company announced that its wholly-owned subsidiaries had completed the previously announced transactions regarding the sales of waste services operations in the Netherlands and Finland, and the majority interest in Waste Management New Zealand Limited. Additionally, the Company announced that its wholly-owned subsidiary had reached an agreement to sell Pacific Waste Management, its Australian subsidiary, to SITA for \$230 million. Finally, the Company announced that its wholly owned subsidiary had reached an agreement to sell its waste services operations in Italy to Emas S.p.A. and Italcogim S.p.A. for approximately \$70 million. The Australian and Italian sales are expected to be completed in the second quarter of 2000.

On April 25, 2000, the Company announced that it had reached a definitive agreement to sell ten waste collection businesses in Arkansas, Kentucky, Missouri, Nebraska, Oklahoma and Texas, 12 landfills in Arkansas, Kansas, Kentucky, Missouri, Nebraska, Oklahoma and Texas and seven transfer stations in Arkansas, Missouri, Nebraska and Oklahoma to Waste Corporation of America for approximately \$110 million and the assumption of closure and post-closure liabilities. The transaction is expected to be completed in the third quarter of 2000, and is subject to approvals from various state and federal agencies as well as customary closing conditions.

On May 1, 2000, the Company announced that it had reached a definitive agreement to sell its BioGro business, a leading manager of organic residuals in North America, to Synagro Technologies, Inc. for approximately \$200 million in cash and assumed debt. The Company expects to complete the sale in the second quarter of 2000.

On May 7, 2000, the Company announced that its wholly-owned subsidiary had reached an agreement to sell its waste operations in Germany to Cleanaway Deutschland Holding GmbH for approximately \$80 million. The Company expects the sale to be completed in the second half of 2000.

SEASONALITY AND INFLATION

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

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

NEW ACCOUNTING PRONOUNCEMENT

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

PART II.

ITEM 1. LEGAL PROCEEDINGS.

In February 1998, WM Holdings announced a restatement of prior-period earnings for 1991 and earlier as well as for 1992 through 1996 and the first three quarters of 1997. Many actions were brought or claims made against WM Holdings as a result of this restatement, as set forth in earlier annual and quarterly reports made by the Company. The Company has resolved many of these actions and claims, as discussed in earlier filings, including the settlement, in January 2000, of two actions, one pending in Illinois state court and the other in Florida federal court. The following actions, however, remain outstanding.

In July 1998, a business owner who received WM Holdings common stock in the sale of his business to WM Holdings brought a purported class action against that company alleging breach of warranty. In April 1999, the court in that action granted summary judgment against WM Holdings and in favor of the individual plaintiff. In October 1999, the court certified a class consisting of all sellers of business assets to WM Holdings between January 1, 1990, and February 24, 1998, whose purchase agreements with WM Holdings contained express warranties regarding the accuracy of WM Holdings' financial statements. In March 1999, the court of appeals upheld this certification order. Also in March 1999, the trial court granted summary judgment on the claim of breach of warranty against WM Holdings and in favor of all members of the class except for a discrete group of plaintiffs whose claims may have expired under applicable statutes of limitations. The extent of damages, if any, in this class action has not yet been determined.

In February and March 2000, two asset sellers who otherwise would have been included in the above class, as currently defined, brought separate actions against the Company for breach of contract and fraud, among other things. One of the suits arises out of a transaction valued at over \$200 million at the time of closing in 1996, while the other involves a transaction in excess of \$11 million at its closing in 1995. Both suits are in their early stages and the extent of possible damages, if any, has not yet been determined.

In December 1999, a sole plaintiff brought an action against the Company, five former officers of WM Holdings, and WM Holdings' auditors 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. The Defendants have removed this action to federal court but the case has been remanded back to the state forum. This action is in its early stages and the extent of possible damages, if any, has not yet been determined.

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

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

In March and April 1999, two former officers of WM Holdings sued the Company for retirement and other benefits. These actions are in their early stages and the extent of possible damages, if any, has not yet been determined. Additionally, a third former officer brought a similar claim, that was subsequently dismissed, in March 2000. The newest action included claims related to the decision by the board of WM Holdings to recommend the merger of WM Holdings with the Company.

On July 6, 1999, the Company announced that it had lowered its expected earnings per share for the three months ended June 30, 1999. On July 29, 1999, the Company announced a further reduction in its expected earnings for that period. On August 3, 1999, the Company announced a further reduction in its expected earnings for that period and that its reported operating income for the three months ended March 31, 1999 may have included certain unusual pretax income items. More than 30 lawsuits that purport to be based on one or more of these announcements were filed against the Company and certain of its officers and directors in the United States District Court for the Southern District of Texas. These actions have been consolidated into a single action. On September 7, 1999, a lawsuit was filed against the Company and certain of its officers and directors in the United States District Court for the Eastern District of Texas. Pursuant to a joint motion this case was transferred to the United States District Court for the Southern District of Texas, to be consolidated with the consolidated action pending there. Taken together, the plaintiffs in these lawsuits purport to assert claims on behalf of a class of purchasers of the Company's common stock between June 10, 1998 and August 16, 1999. Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made knowingly false earnings projections for the three months ended June 30, 1999 and (ii) failed to adequately disclose facts relating to its earnings projections that the plaintiffs allege would have been material to purchasers of the Company's common stock. The plaintiffs also claim that certain of the Company's officers and directors sold common stock between March 31, 1999 and July 6, 1999 at prices allegedly known to be inflated by the alleged material misstatements and omissions. The plaintiffs in these actions seek damages with interest, costs and such other relief as the court deems proper. The case is at an early stage and the extent of possible damages, if any, can not yet be determined.

The Company is defending a lawsuit and two arbitration actions initiated by individuals who received common stock in sale of their business to the Company or to a company later acquired by the Company. The first of these actions was filed in state court in Oregon in November 1999. Subsequently, two arbitrations have been initiated, both related to the sale of businesses to Eastern Environmental Services, Inc. ("Eastern"). For reasons similar to those alleged in the class actions described above, or for reasons related to their acquisition by Eastern, these individuals allege that the stock they received was overvalued. These cases are in an early stage and the extent of possible damages, if any, have not yet been determined.

In addition, three of the Company's shareholders have filed purported derivative lawsuits against certain officers and directors of the Company in connection with the events surrounding the Company's second quarter 1999 earnings projections and July 6, 1999 earnings announcement. Two of these lawsuits were filed in the Delaware Court of Chancery on July 16, 1999 and August 18, 1999, respectively, and one was filed in the United States District Court for the Southern District of Texas on July 27, 1999. The Delaware cases have been consolidated and the plaintiffs have filed an amended consolidated complaint. The amended complaint alleges claims relating to the Company's 1999 annual and quarterly earnings, sales of Company stock by certain of the Company's officers and directors, and alleged self-dealing by certain Company's officers. The plaintiffs in these actions purport to allege derivative claims on behalf of the Company against these individuals for alleged breaches of fiduciary duty resulting from their alleged common stock sales during the three months ended June 30, 1999 and/or their oversight of the Company's affairs. The lawsuits name Waste Management, Inc. as a nominal defendant and seek compensatory and punitive damages with interest, equitable and/or injunctive relief, costs and such other relief as the respective courts deem proper. The defendants have not yet been required to respond to the complaints.

Beginning at year end 1999 the Company became involved in a series of disputes with Louis D. Paolino, former President and Chief Executive Officer of Eastern and others in connection with the merger between the Company and Eastern ("the Eastern Merger"). The Company alleges, among other things, that the defendants usurped Eastern corporate opportunities for personal gain and otherwise mismanaged certain affairs of Eastern. Mr. Paolino and others allege that the Company and unnamed others committed security fraud alleging that the stock they were issued in connection with the Eastern Merger was over-valued because the Company failed to disclose that it was having problems integrating the operations of WM Holdings and the Company after the WM Holdings Merger. These disputes are in an early state and the extent that the Company may recover damages, if any, or be required to pay damages, if any, has not yet been determined.

The Company is aware of a lawsuit filed in state court in Houston, Texas by several related shareholders against the Company and three of its former officers. The Company has not been served. The petition alleges that the plaintiffs are substantial shareholders of the Company's common stock who intended to sell their stock in 1999, but that the individual defendants made false and misleading statements regarding the Company's prospects that induced the plaintiffs to retain their stock. Plaintiffs assert that the value of their retained stock declined dramatically. Plaintiffs asserted claims for fraud, negligent misrepresentation, and conspiracy. As neither the Company nor the individual defendants have been served in this action, the defendants have filed no responsive pleadings in the action.

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

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

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

The Company received a Civil Investigative Demand ("CID") from the Antitrust Division of the United States Department of Justice in July 1999 inquiring into the Company's non-hazardous solid waste operations in the State of Massachusetts. The CID purports to have been issued for the purpose of determining whether the Company has engaged in monopolization, illegal contracts in restraint of trade, or anticompetitive acquisitions of disposal and/or hauling assets. The CID requires the Company to provide the United States Department of Justice with certain documents to assist it in its inquiry with which the Company is fully cooperating.

On July 16, 1999, a lawsuit was filed against the Company in the Circuit Court for Sumter County in the State of Alabama. The plaintiff in the lawsuit purported to allege on behalf of a class of similarly situated persons that the Company has deprived the class of lump sum payments of pension plan benefits allegedly promised to be paid in connection with termination of the Plan. On behalf of the purported class, the plaintiff sought compensatory and punitive damages, costs, restitution with interest, and such relief as the Court deemed proper. On July 29, 1999, the Company announced that it had determined to proceed with the termination of the Plan, liquidating the Plan's assets and settling its obligations to participants. The plaintiff voluntarily dismissed her case on September 13, 1999. However, that same day, the same attorneys filed another Plan-related putative class action against the Company and various individual defendants in the United States District Court for the Middle District of Alabama, Northern Division. This case, brought by a different putative class representative, alleges that the defendants violated the federal Employee Retirement Income Security Act ERISA by failing to terminate the Plan in accordance with its terms, by failing to manage Plan assets prudently and in the interests of Plan participants, and by delaying the Plan's termination date and the expected distribution of lump-sum pension benefits. On behalf of the purported class, the plaintiff seeks declaratory and injunctive relief, restitution of all losses and expenses allegedly incurred by the Plan, payment of all benefits allegedly owed to Plan participants, attorney's fees and costs, and other "appropriate" relief under the Internal Revenue Code, ERISA and the Plan. The case is in its early stages and the extent of possible damages, if any, can not yet be determined.

The continuing business in which the Company is engaged is intrinsically connected with the protection of the environment and the potential for the unintended or unpermitted discharge of materials into the environment. In the ordinary course of conducting its business activities, the Company becomes involved in judicial and administrative proceedings involving governmental authorities at the foreign, federal, state, and local level, including, in certain instances, proceedings instituted by citizens or local governmental authorities seeking to overturn governmental action where governmental officials or agencies are named as defendants

together with the Company or one or more of its subsidiaries, or both. In the majority of the situations where proceedings are commenced by governmental authorities, the matters involved related to alleged technical violations of licenses or permits pursuant to which the Company operates or is seeking to operate or laws or regulations to which its operations are subject or are the result of different interpretations of applicable requirements. From time to time, the Company pays fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of March 31, 2000, there were four proceedings involving Company subsidiaries where the sanctions involved could potentially exceed \$100,000. The Company believes that these matters will not have a material adverse effect on its results of operations or financial condition. However, the outcome of any particular proceeding cannot be predicted with certainty, and the possibility remains that technological, regulatory or enforcement developments, the results of environmental studies or other factors could materially alter this expectation at any time.

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

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

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

In August 1999, sludge materials from trucks entering the Company's Woodland Meadows Landfill in Michigan were seized by the FBI pursuant to an investigation of the generator of the sludge materials, a company that provides waste treatment services. Subsequently, the Company received two Grand Jury subpoenas as well as requests for information from the Michigan Department of Environmental Quality, seeking information related to the landfill's waste acceptance practices and the Company's business relationship with the generator. According to affidavits attached to the subpoena, the generator's treatment plant was sold by the Company to the generator in May 1998. The Company is cooperating with the pending

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

As of March 31, 2000, the Company or its subsidiaries had been notified that they are potentially responsible parties in connection with 85 locations listed on the NPL. Of the 85 NPL sites at which claims have been made against the Company, 17 are sites which the Company has come to own over time. All of the NPL sites owned by the Company were initially developed by others as land disposal facilities. At each of the 17 owned facilities, the Company is working in conjunction with the government to characterize or remediate identified site problems. In addition, at these 17 facilities, the Company has either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or is pursuing resolution of an allocation formula. The 68 NPL sites at which claims have been made against the Company and which are not owned by the Company are at different procedural stages under Superfund. At some of these sites, the Company's liability is well defined as a consequence of a governmental decision as to the appropriate remedy and an agreement among liable parties as to the share each will pay for implementing that remedy. At others where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, the Company's future costs are uncertain. Any of these matters could have a material adverse effect on the Company's financial statements.

In November 1998, the Company was sued by the estate of Shayne Conner, who died on November 24, 1995 in Greenland, New Hampshire. Plaintiffs allege that Mr. Conner's death was caused by biosolids that were applied to a nearby field by the Company's BioGro business unit. The litigation is currently in the discovery phase, and the Company is preparing a rebuttal to plaintiff's expert report on causation. The Company is vigorously defending itself in the litigation.

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

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

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

The Company and certain of its subsidiaries are also currently involved in other civil litigation and governmental proceedings relating to the conduct of their business. The outcome of any particular lawsuit or governmental investigation cannot be predicted with certainty and these matters could have a material adverse impact on the Company's financial statements.

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

None.

ITEM 5. OTHER INFORMATION

None.

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

(a) Exhibits:

EXHIBIT NUMBER*	DESCRIPTION
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10.1	-- Employment Agreement dated January 21, 2000 between Waste Management, Inc. and Lawrence O' Donnell, III.
10.2	-- Employment Agreement dated March 30, 2000 between Waste Management, Inc. and David R. Hopkins.
10.3	-- Employment Agreement dated November 18, 1999 between Waste Management, Inc. and Thomas L. Smith.
10.4	-- Employment Agreement dated May 10, 2000 between Waste Management, Inc. and Robert E. Dees, Jr.
12	-- Computation of Ratio of Earnings to Fixed Charges.
27	-- Financial Data Schedule.

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

(b) Reports on Form 8-K:

During the first quarter of 2000, the Company filed a Current Report on Form 8-K dated February 10, 2000, to announce its intention to sell the 60.5% of the shares it owns in Waste Management New Zealand, Inc.

SIGNATURES

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

By: /s/ WILLIAM. L. TRUBECK

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

By: /s/ BRUCE E. SNYDER

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

Date: May 12, 2000

INDEX TO EXHIBITS

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EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC. (the "Company"), and LAWRENCE O'DONNELL, III (the "Executive") hereby enter into this EMPLOYMENT AGREEMENT ("Agreement") dated as of January 21, 2000, as follows:

1. EMPLOYMENT.

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

2. TERM OF EMPLOYMENT.

The period of Executive's employment under this Agreement shall commence on February 14, 2000, or sooner at the option of the Executive, and be for a continuously renewing (on a daily basis) five (5) year term, without any further action by either the Company or Executive, unless Executive's employment is terminated in accordance with Section 5 below. The date on which Executive commences employment with the Company shall be referred to as the "Commencement Date" and the period during which Executive is employed hereunder shall be referred to as the "Employment Period".

3. DUTIES AND RESPONSIBILITIES.

- (a) Executive shall serve as Senior Vice President and General Counsel, and shall serve as Secretary to the Board of Directors of the Company (the "Board"). In such capacities, Executive shall perform such duties and have the power, authority and functions commensurate with such positions in similarly sized public companies and such other authority and functions consistent with such positions as may be assigned to Executive from time to time by the Board.
- (b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement), be involved in charitable and professional activities and, with the consent of the Board (which shall not unreasonably be withheld or delayed) serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder. Service on the for profit boards that Executive is currently serving on are hereby approved.

4. COMPENSATION AND BENEFITS.

- (a) **BASE SALARY.** During the Employment Period, the Company shall pay Executive a base salary at the annual rate of four hundred seventy thousand (\$470,000) dollars per year or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced.

- (b) ANNUAL BONUS. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company. The Executive's target annual bonus will be sixty percent (60%) of his Base Salary as in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 120% (two times target), and will be determined based upon achievement of performance goals (seventy percent [70%] financial [return on capital investments and EBITDA] and thirty percent [30%] personal) as approved by the Compensation Committee of the Board.
- (c) SIGN-ON BONUS. Within thirty (30) days after the Commencement Date, the Company will pay Executive a two hundred thousand (\$200,000) dollar sign-on bonus.
- (d) FIRST BONUS GUARANTEED. The Company will pay to Executive a minimum guaranteed bonus in the amount of one hundred eighty-eight thousand (\$188,000) dollars, to be paid in 2001.
- (e) STOCK OPTIONS.
- (i) Effective as of the date of this Agreement, Executive will be granted a ten-year stock option award under the Stock Incentive Plan to purchase three hundred fifty thousand (350,000) shares of Stock. The exercise price shall be the fair market value on such date, and the options shall vest in equal installments in each of the first four (4) anniversaries of the date of this Agreement.
- (ii) Following the February/March, 2001 meeting of the Compensation Committee of the Board of Directors, Executive will be granted a ten (10) year stock option award under the Stock Incentive Plan to purchase one hundred seventy-five thousand (175,000) shares of Stock. The exercise price shall be the fair market value on the date the Compensation Committee meets to award the options, and the options shall vest in equal installments over five (5) years. Thereafter, Executive shall participate in the Company's annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors.
- (f) REPLACEMENT AWARDS. In order to address certain forfeitures that Executive will face upon termination of his employment with his prior employer, Executive shall be awarded or receive the following:

Restricted Stock Award. Effective as of the Commencement Date, the Company will grant Executive an award of restricted shares of the Company's common stock (the "Stock") (valued at three hundred thousand [\$300,000] dollars on the date of grant) under the Waste Management, Inc. 1993 Stock Incentive Plan (the "Stock Incentive Plan") that will vest in equal installments on each of the first four (4) anniversaries of the Commencement Date, subject (except as otherwise provided herein) to Executive's continuous employment with the Company through the applicable vesting date (the "Restricted Stock Grant"). The Restricted Stock Grant shall be deemed outstanding shares for all purposes and Executive shall be fully vested in any cash dividends paid therein (and non cash dividends being subject to the same forfeiture provisions as the underlying Restricted Stock Grant shares).

- (g) OTHER COMPENSATION. Executive shall be entitled to participate in the Company's "Executive Deferral Plan" and any incentive or supplemental compensation plan, or arrangement maintained or instituted by the Company, and covering its principal executive officers, at a level commensurate with his positions and to receive additional compensation from the Company in such form, and to such extent, if any, as the Compensation Committee may in its sole discretion from time to time specify.
- (h) BENEFIT PLANS AND VACATION. Executive shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to its executive officers at a level commensurate with his positions. All waiting periods for welfare plans shall be waived, and pre-existing medical conditions for Executive and Executive's family members will not be a basis for withholding medical insurance benefits. During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. The Executive shall also be entitled to such periods of sick leave as is customarily provided by the Company for its senior executive employees. Executive shall be eligible to participate in the Company's 401(k) Plan after 90 days of employment.
- (i) OTHER PERQUISITES. Executive shall be entitled to the following benefits:
1. Auto Allowance in the amount of one thousand (\$1,000) dollars per month;
 2. Financial Planning Services at actual cost, and not to exceed fifteen thousand (\$15,000) dollars annually;
 3. Club Dues and Assessments at actual cost, and not to exceed twelve thousand (\$12,000) dollars annually; and
 4. An Annual Physical Examination on a program designated by the Company.
- (j) EXPENSE REIMBURSEMENT. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties hereunder in accordance with the Company's customary practices applicable to its executive officers. In addition the Company shall (i) pay for the reasonable costs, fees and expenses incurred by Executive, his consultants or legal advisors in connection with the negotiation and execution of this Agreement in an amount not to exceed ten thousand (\$10,000) dollars.

5. TERMINATION OF EMPLOYMENT.

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

- (a) DEATH. Executive's employment hereunder shall terminate upon Executive's death.
- (b) TOTAL DISABILITY. The Company may terminate Executive's employment hereunder upon Executive becoming "Totally Disabled". For purposes of this Agreement, Executive shall be "Totally Disabled" if Executive has been physically or mentally incapacitated so as to render Executive incapable of performing Executive's material usual and customary duties under this Agreement for six (6) consecutive months (such consecutive absence not being deemed interrupted by Executive's return to service for less than 10 consecutive business days if absent thereafter for the same illness or disability). Any such termination shall be upon thirty (30) days written notice given at any time thereafter while Executive remains Totally Disabled, provided that a termination for Total Disability hereunder shall not be effective if Executive returns to full performance of his duties within such thirty (30) day period.
- (c) TERMINATION BY THE COMPANY FOR CAUSE. The Company may terminate Executive's employment hereunder for "Cause" at any time within ninety (90) days after the Chairman of the Audit or Governance Committee of the Board has knowledge thereof.
 - (i) For purposes of this Agreement, the term "Cause" shall be limited to (1) willful misconduct by Executive with regard to the Company which has a material adverse effect on the Company; (2) the willful refusal of Executive to attempt to follow the proper written direction of the Board, provided that the foregoing refusal shall not be "Cause" if Executive in good faith believes that such direction is illegal, unethical or immoral and promptly so notifies the Board; (3) substantial and continuing willful refusal by the Executive to attempt to perform the duties required of him hereunder (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Board which specifically identifies the manner in which it is believed that the Executive has substantially and continually refused to attempt to perform his duties hereunder; or (4) the Executive being convicted of a felony (other than a felony involving a traffic violation or as a result of vicarious liability). For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of the Company.
 - (ii) A Notice of Termination for Cause shall mean a notice that shall indicate the specific termination provision in Section 5(c)(i) relied upon and shall set forth in reasonable detail the facts and circumstances which provide for a basis for termination for Cause. Further, a Notification for Cause shall be required to

include a copy of a resolution duly adopted by at least two-thirds (2/3rds) of the entire membership of the Board at a meeting of the Board which was called for the purpose of considering such termination and which Executive and his representative had the right to attend and address the Board, finding that, in the good faith of the Board, Executive engaged in conduct set forth in the definition of Cause herein and specifying the particulars thereof in reasonable detail. The date of termination for a termination for Cause shall be the date indicated in the Notice of Termination. Any purported termination for Cause which is held by a court or arbitrator not to have been based on the grounds set forth in this Agreement or not to have followed the procedures set forth in this Agreement shall be deemed a termination by the Company without Cause.

- (d) VOLUNTARY TERMINATION BY EXECUTIVE. Executive may terminate employment hereunder with or without Good Reason at any time upon written notice to the Company.
- (i) A Termination for Good Reason means a termination by Executive by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (1) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in connection with the termination of Executive's employment for Cause or Total Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence), or, the assignment to Executive of duties or responsibilities that are inconsistent with Executive's then position; provided that if the Company becomes a fifty percent or more subsidiary of any other entity, Executive shall be deemed to have a material diminution of his position unless he is also Senior Vice President and General Counsel, and Secretary to the Board of the ultimate parent entity; (2) removal of, or the non-re-election of, the Executive from officer positions with the Company specified herein or removal of the Executive from any of his then officer positions; (3) requiring Executive's principal place of business to be located other than in the Houston, Texas greater Metropolitan region; (4) a failure by the Company (I) to continue any bonus plan, program or arrangement in which Executive is entitled to participate (the "Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Executive with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (II) to continue Executive as a participant in the Bonus Plans and Substitute Plans on at least the same basis as to potential amount of the bonus as Executive participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans; (5) any material breach by the Company of any provision of this Agreement, including without limitation Section 10 hereof; or (6) failure of any

successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder.

(ii) A Notice of Termination for Good Reason shall mean a notice that shall indicate the specific termination provision relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The failure by Executive to set forth in the Notice of Termination for Good Reason any facts or circumstances which contribute to the showing of Good Reason shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections (i)(1) or (2) the date may be five (5) days after the giving of such notice.

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

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

6. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

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

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

(i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, any earned but unpaid bonuses for any prior period, a pro-rata "bonus" or incentive compensation payment to the extent payments are awarded senior executives and paid at the same time as senior executives are paid, and any vacation accrued to the date of death.

(ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(g)-(i) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.

- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's death) which would have been payable to Executive if Executive had continued in employment for two additional years. Said payments will be paid to Executive's estate or beneficiary at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment.
- (iv) As of the date of termination by reason of Executive's death, stock options awarded to Executive and the Restricted Stock Grant shall be fully vested and Executive's estate or beneficiary shall have up to one (1) year from the date of death to exercise all such options.
- (v) As otherwise specifically provided herein.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment to the extent such awards are made to senior executives for the year in which Executive is terminated.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(g)-(i) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's Total Disability) which would have been payable to Executive if Executive had continued in active employment for two years following termination of employment, less any payments under any long-term disability plan or arrangement paid for by the Company. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment until the end of such period.
- (iv) As of the date of termination by reason of Executive's Total Disability, Executive shall be fully vested in all stock option awards and the Restricted Stock Grant and Executive shall have up to one (1) year from the date of termination by reason of Total Disability to exercise all such options.
- (v) As otherwise specifically provided herein.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(g)-(i) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and any options held by Executive shall be cancelled, whether or not then vested.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(g)-(i) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and Executive shall have 90 days following termination of employment to exercise any previously vested options (or, if earlier, until the stated expiration thereof).

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Sections 4(g)-(i) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to two times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case as then in effect), of which one-half shall be paid in a lump sum within ten (10) days after such termination and one-half shall be paid during the two (2) year period beginning on the date of Executive's termination and shall be paid at the same time and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
- (iv) The Company at its expense will continue for Executive and Executive's spouse and dependents, all health benefit plans, programs or arrangements, whether group or individual, and also including deferred compensation, disability, automobile, and other benefit plans, in which Executive was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) two years after the date of termination; (B) Executive's death (provided that benefits payable to Executive's beneficiaries shall not terminate upon Executive's death); or (C) with respect to any particular plan, program or arrangement, the date Executive becomes covered by a comparable benefit by a subsequent employer. In the event that Executive's continued participation in any such plan, program, or arrangement of the Company is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under such plan, program, or arrangement, for such period on a basis which provides Executive with no additional after tax cost.
- (v) Except to the extent prohibited by law, and except as otherwise provided herein, Executive will be 100% vested in all benefits, awards, and grants accrued but unpaid as of the date of termination under any pension plan, profit sharing plan, supplemental and/or incentive compensation plans in which Executive was a participant as of the date of termination. Executive shall also be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives, pro-rated for the fiscal year in which the Executive is terminated.
- (vi) As of the date of such termination of employment, the stock options awarded to Executive pursuant to Section 4(e)(i) hereof and the Restricted Stock Grant shall be fully vested. Executive shall continue to vest in all other stock option awards or restricted stock awards over the two (2) year period commencing on the date of such termination. Executive shall have two (2) years and six (6) months after the date of termination to exercise all options, unless by virtue of the particular stock option award, the option grant expires on an earlier date.
- (vii) As otherwise specifically provided herein.

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

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

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

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

(i) The payments and benefits provided for in Section 6(e), except that (A) the period with respect to which severance is calculated pursuant to Section 6(e)(iii) will be three (3) years and the amount shall be paid in a lump-sum and (B) the benefit continuation period in Section 6(e)(iv) shall be three years.

(ii) Executive will be 100% vested in all benefits, awards, and grants (including stock option grants and stock awards, all of such stock options exercisable for three (3) years following Termination) accrued but unpaid as of the date of termination under any non-qualified pension plan, supplemental and/or incentive compensation or bonus plans, in which Executive was a participant as of the date of termination. Executive shall also receive a bonus or incentive compensation payment (the "bonus payment"), payable at 100% of the maximum bonus available to Executive, pro-rated as of the effective date of the termination. The

bonus payment shall be payable within five (5) days after the effective date of Employee's termination. Except as may be provided under this Section 7 or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's resignation from employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such resignation or termination.

(b) CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

- (i) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (iv) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this Section 7(b), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.
- (ii) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G[b][3] of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G[b][2]) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.
- (iii) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of

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

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

- (iv) The Gross-up Payment or portion thereof provided for in subsection (iii) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (iii) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company

to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

- (v) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.
- (vi) The Company shall be responsible for all charges of the Accountant.
- (vii) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Section 7(b).

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

- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding voting securities;
- (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Commencement Date, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of the at least two-thirds (2/3rds) of the directors then still in office who either were directors on the Commencement Date or whose appointment, election or nomination for election was previously so approved or recommended;
- (iii) there is a consummated merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the

Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving or parent equity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person, directly or indirectly, acquired twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates); or

- (iv) the stock holders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

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

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

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

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

8. RESTRICTIVE COVENANTS.

- (a) **COMPETITIVE ACTIVITY.** Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for two (2) years thereafter, Executive will not engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 3% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly

or indirectly, is materially engaged in the waste management business competitive with that conducted and carried on by the Company, without the Company's specific written consent to do so. "Material" shall mean more than five (5%) percent of their revenue is generated from the waste management business; provided that the revenues within Executive's area of responsibility or authority are more than 10% composed of revenues from the waste disposal business. Notwithstanding the foregoing, Executive may be employed by or provide services to, an investment banking firm, law firm or consulting firm that provides services to entities described in the previous sentence, provided that Executive does not personally represent or provide services to such entities.

(b) NON-SOLICITATION. Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for a period of two (2) years after the Termination thereof, whether such termination is voluntary or involuntary by wrongful discharge, or otherwise, Executive will not directly and personally knowingly (i) induce any customers of the Company or corporations affiliated with the Company to patronize any similar business which competes with any material business of the Company; (ii) after his termination of employment, request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; or (iii) after his termination of employment, individually or through any person, firm, association or corporation with which he is now, or may hereafter become associated, solicit, entice or induce any then employee of the Company, or any subsidiary of the Company, to leave the employ of the Company, or such other corporation, to accept employment with, or compensation from the Executive, or any person, firm, association or corporation with which Executive is affiliated without prior written consent of the Company. The foregoing shall not prevent Executive from serving as a reference for employees.

(c) PROTECTED INFORMATION. Executive recognizes and acknowledges that Executive has had and will continue to have access to various confidential or proprietary information concerning the Company and corporations affiliated with the Company of a special and unique value which may include, without limitation, (i) books and records relating to operation, finance, accounting, sales, personnel and management, (ii) policies and matters relating particularly to operations such as customer service requirements, costs of providing service and equipment, operating costs and pricing matters, and (iii) various trade or business secrets, including customer lists, route sheets, business opportunities, marketing or business diversification plans, business development and bidding techniques, methods and processes, financial data and the like, to the extent not generally known in the industry (collectively, the "Protected Information"). Executive therefore covenants and agrees that Executive will not at any time, either while employed by the Company or afterwards, knowingly make any independent use of, or knowingly disclose to any other person or organization (except as authorized by the Company) any of the Protected Information, provided that (i) while employed by the Company, Executive may in good faith make disclosures he believes desirable, and (ii) Executive may comply with legal process.

9. ENFORCEMENT OF COVENANTS.

- (a) RIGHT TO INJUNCTION. Executive acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages may be inadequate. Therefore, in the event of breach or threatened breach of the covenants set forth in this section by Executive, Executive and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; injunctions, both preliminary and permanent, enjoining or restraining such breach or threatened breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction.
- (b) SEPARABILITY OF COVENANTS. The covenants contained in Section 8 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

Executive and the Company further agree that the covenants in Section 8 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. INDEMNIFICATION.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent as the Company covers its other officers and directors.

11. DISPUTES AND PAYMENT OF ATTORNEY'S FEES.

If at any time during the term of this Agreement or afterwards there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Executive (and Executive shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly

provide sums sufficient to pay on a current basis (either directly or by reimbursing Executive) Executive's costs and reasonable attorney's fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Executive in connection with any such dispute or any litigation, provided that Executive shall repay any such amounts paid or advanced if Executive is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. The provisions of this Section 11, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and of Executive's employment hereunder.

12. WITHHOLDING OF TAXES.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

13. SOURCE OF PAYMENTS.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

14. ASSIGNMENT.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's designated beneficiary or, if none, his estate) and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer in a writing delivered to Executive in a form reasonably acceptable to Executive (the provisions of this sentence also being applicable to any successive such transaction).

15. ENTIRE AGREEMENT; AMENDMENT.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company. It may not be amended except by a written agreement signed by both parties.

16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions.

17. REQUIREMENT OF TIMELY PAYMENTS.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

18. NOTICES.

Any notice, consent, request or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company: Waste Management, Inc.
1001 Fannin, Suite 4000
Houston, Texas 77002
Attention: Corporate Secretary

To Executive: At the address for Executive set forth below.

19. MISCELLANEOUS.

- (a) WAIVER. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) SEPARABILITY. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

- (c) HEADINGS. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) RULES OF CONSTRUCTION. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

WASTE MANAGEMENT, INC.

By: /s/ A. Maurice Myers

 Name: A. Maurice Myers
 Title: Chairman, Chief Executive Officer and President

Date: January 21, 2000

EXECUTIVE

/s/ Lawrence O'Donnell, III

 Lawrence O'Donnell, III

Date: January 21, 2000

Social Security Number:

Address:

EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC. (the "Company"), and DAVID HOPKINS (the "Executive") hereby enter into this EMPLOYMENT AGREEMENT ("Agreement") dated as of March 30, 2000, as follows:

1. EMPLOYMENT.

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

2. TERM OF EMPLOYMENT.

The period of Executive's employment under this Agreement shall commence on April 17, 2000, and be for a continuously renewing (on a daily basis) three (3) year term, without any further action by either the Company or Executive, unless Executive's employment is terminated in accordance with Section 5 below. The date on which Executive commences employment with the Company shall be referred to as the "Commencement Date" and the period during which Executive is employed hereunder shall be referred to as the "Employment Period".

3. DUTIES AND RESPONSIBILITIES.

- (a) Executive shall serve as Senior Vice President of the Company with responsibility for the Southern Area operations, as designated from time to time by the Chief Executive Officer or President of the Company, or such other areas of operation as designated by the Chief Executive Officer or President of the Company from time to time. In such capacities, Executive shall perform such duties and have the power, authority and functions commensurate with such positions in similarly sized public companies and such other authority and functions consistent with such positions as may be assigned to Executive from time to time by the Chief Executive Officer, President, or the Board of Directors.
- (b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement), be involved in charitable and professional activities and, with the consent of the Board, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder.

4. COMPENSATION AND BENEFITS.

- (a) **BASE SALARY.** During the Employment Period, the Company shall pay Executive a base salary at the annual rate of FOUR HUNDRED THOUSAND (\$400,000.00) dollars per year or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced.

- (b) ANNUAL BONUS. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company. The Executive's target annual bonus will be sixty percent (60%) of his Base Salary as in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 120% (2 times target), and will be determined based upon achievement of performance goals (seventy percent (70%) financial (initially return on capital investments and EBITDA, but may be tied to other metrics as may be established from time to time by the Compensation Committee of the Board) and thirty percent (30%) personal), all as approved by the Compensation Committee of the Board from time to time.
- (c) STOCK OPTIONS. Executive shall be granted a stock option for 100,000 shares of the Company's common stock following the meeting of the Compensation Committee at the end of February, 2000, subject to the approval of the Compensation Committee of the Board of Directors, under the terms of the Company's 1993 Stock Incentive Plan. The exercise price for this option will be the fair market value on the date the option is granted by the Compensation Committee, and the option will vest in equal installments of 25,000 shares over four (4) years beginning on the first anniversary of the date of the grant of such option. Thereafter, Executive shall be eligible to be considered for stock option grants under the Company's annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors.
- (d) BENEFIT PLANS AND VACATION. Executive shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to its executive officers at a level commensurate with his position. During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. The Executive shall also be entitled to such periods of sick leave as is customarily provided by the Company for its senior executive employees. Executive shall be eligible to participate in the Company's 401(k) Plan after 90 days of employment.
- (e) OTHER PERQUISITES. Executive shall be entitled to the following benefits:
1. Financial Planning Services at actual cost, not to exceed Fifteen Thousand Dollars (\$15,000.00) annually;
 2. Club Dues and Assessments at actual costs, and not to exceed Twelve Thousand Dollars (\$12,000.00) annually.
 3. An Annual Physical Examination on a program designated by the Company.

- (f) OTHER BENEFITS. Executive shall be entitled to participate in the Company's "Executive Deferral Plan", as it presently exists or may be modified in the future, for the Company's executive officers, at a level commensurate with the Executive's position.
- (g) OTHER INCENTIVES. Executive shall be eligible to (i) receive incentive compensation for 1999 to the extent of the achievement of certain EBIT, EBITDA and free cash flow goals, as previously established; and (ii) continue his participation in the "divestiture incentive program", consisting of a "retention incentive" and a "divestiture sale incentive"; all as detailed in the memos dated August 25, 1999, September 22, 1999, and December 22, 1999, and the agreements of Steve Miller and Ralph Whitworth interlineated by hand in those memos, with no reduction or penalty for having transferred to a new Waste Management executive position.
- (h) EXPENSE REIMBURSEMENT. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties hereunder in accordance with the Company's customary practices applicable to its executive officers.
- (i) RELOCATION. The Company will reimburse Executive for reasonable and necessary expenses incurred in connection with the relocation of his principal residence from Houston, Texas to Atlanta, Georgia, as follows:
- (1) Reasonable costs of temporary housing in the Atlanta area for up to ninety (90) days.
 - (2) Normal and customary expenses incurred in connection with the sale of Executive's residence in Houston such as real estate commissions, title insurance, escrow fees, and reasonable attorneys fees.
 - (3) Reasonable costs to move Executive's household goods from Houston to Atlanta.
 - (4) Normal and customary expenses incurred in connection with the purchase by Executive of a new residence in Atlanta, such as loan origination fees, mortgagee title insurance, escrow fees, and reasonable attorneys fees, but not including equity costs.
 - (5) If Executive is not able to sell his residence in Houston within sixty (60) days after the date of this Agreement, at Executive's option, Executive may elect to have the Company (or a relocation company selected by the Company) purchase Executive's home in Houston under the Company's relocation program, which includes having the home appraised by two appraisers selected by the Company.

5. TERMINATION OF EMPLOYMENT.

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

- (a) DEATH. Executive's employment hereunder shall terminate upon Executive's death.
- (b) TOTAL DISABILITY. The Company may terminate Executive's employment hereunder upon Executive becoming "Totally Disabled". For purposes of this Agreement, Executive shall be "Totally Disabled" if Executive has been physically or mentally incapacitated so as to render Executive incapable of performing Executive's material usual and customary duties under this Agreement for six (6) consecutive months (such consecutive absence not being deemed interrupted by Executive's return to service for less than 10 consecutive business days if absent thereafter for the same illness or disability). Any such termination shall be upon thirty (30) days written notice given at any time thereafter while Executive remains Totally Disabled, provided that a termination for Total Disability hereunder shall not be effective if Executive returns to full performance of his duties within such thirty (30) day period.
- (c) TERMINATION BY THE COMPANY FOR CAUSE. Provided that Executive has not tendered a timely "Notice of Termination for Good Reason" in accordance with Section 5(d) below in a situation where Good Reason exists, the Company may terminate Executive's employment hereunder for "Cause" at any time within ninety (90) days after the Chairman of the Audit or Governance Committee of the Board has knowledge thereof.
- (i) For purposes of this Agreement, the term "Cause" shall be limited to (1) willful misconduct by Executive with regard to the Company which has a material adverse effect on the Company; (2) the willful refusal of Executive to attempt to follow the proper written direction of the Chief Executive Officer, the President, or the Board of Directors, provided that the foregoing refusal shall not be "Cause" if Executive in good faith believes that such direction is illegal, unethical or immoral and promptly so notifies the Board; (3) substantial and continuing willful refusal by the Executive to attempt to perform the duties required of him hereunder (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Chief Executive Officer, the President, or the Board of Directors, which specifically identifies the manner in which it is believed that the Executive has substantially and continually refused to attempt to perform his duties hereunder; or (4) the Executive being convicted of a felony (other than a felony involving a traffic violation or as a result of vicarious liability). For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of the Company.
- (ii) A Notice of Termination for Cause shall mean a notice that shall indicate the specific termination provision in Section 5(c)(i) relied upon and shall set forth in reasonable detail the facts and circumstances which provide for a basis for termination for Cause. Further, a Notification for Cause shall be required to

include a copy of a resolution duly adopted by at least two-thirds (2/3rds) of the entire membership of the Board at a meeting of the Board which was called for the purpose of considering such termination and which Executive and his representative had the right to attend and address the Board, finding that, in the good faith of the Board, Executive engaged in conduct set forth in the definition of Cause herein and specifying the particulars thereof in reasonable detail. The date of termination for a termination for Cause shall be the date indicated in the Notice of Termination. Any purported termination for Cause which is held by a court or arbitrator not to have been based on the grounds set forth in this Agreement or not to have followed the procedures set forth in this Agreement shall be deemed a termination by the Company without Cause.

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

(i) A Termination for Good Reason means a termination by Executive by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (1) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in connection with the termination of Executive's employment for Cause or Total Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence); provided that the change in the geographic area of Executive's responsibility or the reassignment of Executive to a different geographic area within the United States or the change in reporting structure shall not constitute Good Reason under any circumstances; further provided that if the Company becomes a fifty percent or more subsidiary of any other entity, Executive shall be deemed to have a material diminution of his position unless he is also a Senior Vice President of the ultimate parent entity; (2) removal of, or the non-re-election of, the Executive from officer positions with the Company specified herein; (3) requiring Executive's principal place of business to be located other than in the United States; (4) a failure by the Company (I) to continue any bonus plan, program or arrangement in which Executive is entitled to participate (the "Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Executive with substantially similar benefits are not substituted therefore ("Substitute Plans"), or (II) to continue Executive as a participant in the Bonus Plans and Substitute Plans on at least the same basis as to potential amount of the bonus as Executive participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans; (5) any material breach by the Company of any

provision of this Agreement, including without limitation Section 10 hereof; or (6) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder.

(ii) A Notice of Termination for Good Reason shall mean a notice that shall indicate the specific termination provision relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The failure by Executive to set forth in the Notice of Termination for Good Reason any facts or circumstances which contribute to the showing of Good Reason shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(1) or (2) the date may be five (5) days after the giving of such notice.

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

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

6. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

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

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

(i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, any earned but unpaid bonuses for any prior period, and, to the extent not otherwise paid, a pro-rata "bonus" or incentive compensation payment to the extent payments are awarded to senior executives of the Company and paid at the same time as senior executives are paid.

- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(d), (e) and (f) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's death) which would have been payable to Executive if Executive had continued in employment for two additional years. Said payments will be paid to Executive's estate or beneficiary at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment.
- (iv) As of the date of termination by reason of Executive's death, stock options awarded to Executive shall be fully vested and Executive's estate or beneficiary shall have up to one (1) year from the date of death to exercise all such options, provided that in no event will any option be exercisable beyond its term.
- (v) As otherwise specifically provided herein.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment to the extent such awards are made to senior executives of the Company for the year in which Executive is terminated, and to the extent not otherwise paid to the Executive.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(d), (e) and (f) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's Total Disability) which would have been payable to Executive if Executive had continued in active employment for two years following termination of employment, less any payments under any long-term disability plan or arrangement paid for by the Company. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment until the end of such period.

- (iv) As of the date of termination by reason of Executive's Total Disability, Executive shall be fully vested in all stock option awards and Executive shall have up to one (1) year from the date of termination by reason of Total Disability to exercise all such options, provided that in no event will any option be exercisable beyond its term.
- (v) As otherwise specifically provided herein.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d), (e) and (f) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and any options held by Executive shall be cancelled, whether or not then vested.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Sections 4(d), (e) and (f) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and Executive shall have 90 days following

termination of employment to exercise any previously vested options, provided that in no event will any option be exercisable beyond its term.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Sections 4(d) and (e) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to two times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case as then in effect), of which one-half shall be paid in a lump sum within ten (10) days after such termination and one-half shall be paid during the two (2) year period beginning on the date of Executive's termination and shall be paid at the same time and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
- (iv) The Company at its expense will continue for Executive and Executive's spouse and dependents, all health benefit plans, programs or arrangements, whether group or individual, and also including deferred compensation, disability, automobile, and other benefit plans, in which Executive was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) two years after the date of termination; (B) Executive's death (provided that benefits payable to Executive's beneficiaries shall not terminate upon Executive's death); or (C) with respect to any particular plan, program or arrangement, the date Executive becomes covered by a comparable benefit by a subsequent employer. In the event that Executive's continued participation in any such plan, program, or arrangement of the Company is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under such plan, program, or arrangement, for such period on a basis which provides Executive with no additional after tax cost.
- (v) Except to the extent prohibited by law, and except as otherwise provided herein, Executive will be 100% vested in all benefits, awards, and grants accrued but unpaid as of the date of termination under any pension plan, profit sharing plan,

supplemental and/or incentive compensation plans in which Executive was a participant as of the date of termination. Executive shall also be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives of the Company, pro-rated for the fiscal year in which the Executive is terminated.

- (vi) Executive shall continue to vest in all stock option awards or restricted stock awards over the two (2) year period commencing on the date of such termination. Executive shall have two (2) years and six (6) months after the date of termination to exercise all options, provided that in no event will any option be exercisable beyond its term.
- (vii) As otherwise specifically provided herein.

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

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

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

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

- (i) The payments and benefits provided for in Section 6(e), except that the severance amount which is calculated pursuant to Section 6(e)(iii) will be paid in a lump-sum.

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

(b) CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

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

accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

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

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

- (iv) The Gross-up Payment or portion thereof provided for in subsection (iii) above shall be paid not later than the thirtieth (30th) day following an event occurring

which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (iii) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

- (v) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.
- (vi) The Company shall be responsible for all charges of the Accountant.
- (vii) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Section 7(b).

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

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

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

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

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

- (i) "Affiliate" shall mean an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");
- (ii) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act;
- (iii) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such

securities or (4) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.

8. RESTRICTIVE COVENANTS.

- (a) **COMPETITIVE ACTIVITY.** Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for two (2) years thereafter, Executive will not engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 3% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is materially engaged in the waste management business competitive with that conducted and carried on by the Company, without the Company's specific written consent to do so. "Material" shall mean more than five (5%) percent of their revenue is generated from the waste management business; provided that the revenues within Executive's area of responsibility or authority are more than 10% composed of revenues from the waste disposal business.
- (b) **NON-SOLICITATION.** Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for a period of two (2) years after the Termination thereof, whether such termination is voluntary or involuntary by wrongful discharge, or otherwise, Executive will not directly and personally knowingly (i) induce any customers of the Company or corporations affiliated with the Company to patronize any similar business which competes with any material business of the Company; (ii) after his termination of employment, request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; or (iii) after his termination of employment, individually or through any person, firm, association or corporation with which he is now, or may hereafter become associated, solicit, entice or induce any then employee of the Company, or any subsidiary of the Company, to leave the employ of the Company, or such other corporation, to accept employment with, or compensation from the Executive, or any person, firm, association or corporation with which Executive is affiliated without prior written consent of the Company. The foregoing shall not prevent Executive from serving as a reference for employees.
- (c) **PROTECTED INFORMATION.** Executive recognizes and acknowledges that Executive has had and will continue to have access to various confidential or proprietary information concerning the Company and corporations affiliated with the Company of a special and unique value which may include, without limitation, (i) books and records relating to operation, finance, accounting, sales, personnel and management, (ii) policies and matters relating particularly to operations such as customer service requirements, costs of providing service and equipment, operating costs and pricing matters, and (iii) various trade or business secrets, including customer lists, route sheets, business opportunities, marketing or business diversification plans, business development and bidding

techniques, methods and processes, financial data and the like, to the extent not generally known in the industry (collectively, the "Protected Information"). Executive therefore covenants and agrees that Executive will not at any time, either while employed by the Company or afterwards, knowingly make any independent use of, or knowingly disclose to any other person or organization (except as authorized by the Company) any of the Protected Information, provided that (i) while employed by the Company, Executive may in good faith make disclosures he believes desirable, provided they are authorized by the Company or otherwise in accordance with Company policy, and (ii) Executive may comply with legal process.

9. ENFORCEMENT OF COVENANTS.

- (a) RIGHT TO INJUNCTION. Executive acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages may be inadequate. Therefore, in the event of breach or threatened breach of the covenants set forth in this section by Executive, Executive and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; injunctions, both preliminary and permanent, enjoining or restraining such breach or threatened breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction.
- (b) SEPARABILITY OF COVENANTS. The covenants contained in Section 8 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

Executive and the Company further agree that the covenants in Section 8 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. INDEMNIFICATION.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Delaware law against any and all losses, costs, and expenses (including attorney's fees) incurred

by Executive arising from or related to Executive serving as an officer or director of the Company or any of its affiliates, at the Company's request, or any action or inaction of the Executive on behalf of the Company or its affiliates while serving in such capacities. This provision includes the obligation and undertaking of the Executive to reimburse the Company for any fees advanced by the Company on behalf of the Executive should it later be determined that Executive was not entitled to have such fees advanced by the Company under Delaware law. The Company's obligation for the indemnity contained herein shall survive the termination of this Agreement, and shall remain in place for so long as Executive remains subject to any claim arising from his services as an officer or director of the Company or any affiliate of the Company, at the Company's request. Executive shall promptly notify the Company of any claim against the Executive. The failure, however, of the Executive to so notify the Company of the assertion of such claim shall not relieve the Company of any obligation hereunder.

11. DISPUTES AND PAYMENT OF ATTORNEY'S FEES.

If at any time during the term of this Agreement or afterwards there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Executive (and Executive shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly advance sums sufficient to pay on a current basis (either directly or by reimbursing Executive) Executive's costs and reasonable attorney's fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Executive in connection with any such dispute or any litigation, provided that Executive shall repay any such amounts paid or advanced if Executive is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. Under no circumstances shall Executive be obligated to pay or reimburse the Company for any attorney's fees, costs, or expenses incurred by the Company in such dispute or litigation. The provisions of this Section 11, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and of Executive's employment hereunder.

12. WITHHOLDING OF TAXES.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

13. SOURCE OF PAYMENTS.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the

Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

14. ASSIGNMENT.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's designated beneficiary or, if none, his estate) and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer in a writing delivered to Executive in a form reasonably acceptable to Executive (the provisions of this sentence also being applicable to any successive such transaction).

15. ENTIRE AGREEMENT; AMENDMENT.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company and any other matters covered hereby, including without limitation, that certain Employment Agreement between the Company and Executive dated January 1, 1999, as amended. It may not be amended except by a written agreement signed by both parties.

16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions.

17. REQUIREMENT OF TIMELY PAYMENTS.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

18. NOTICES.

Any notice, consent, request or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company: Waste Management, Inc.
1001 Fannin, Suite 4000
Houston, Texas 77002
Attention: Corporate Secretary

To Executive: At the address for Executive set forth below.

19. MISCELLANEOUS.

- (a) WAIVER. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) SEPARABILITY. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.
- (c) HEADINGS. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) RULES OF CONSTRUCTION. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY:

WASTE MANAGEMENT, INC.

By: /s/ A. Maurice Myers

Name: A. Maurice Myers
Title: Chairman, Chief Executive Officer and President

Date: April 16, 2000

EXECUTIVE:

/s/ David R. Hopkins

David Hopkins

Date: March 30, 2000

Social Security Number:

Address:

EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC. (the "Company"), and THOMAS L. SMITH (the "Executive") hereby enter into this EMPLOYMENT AGREEMENT ("Agreement"), executed the day and year written below, but effective as of November 18, 1999, as follows:

1. EMPLOYMENT.

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

2. TERM OF EMPLOYMENT.

The period of Executive's employment under this Agreement shall commence on 11-22-99, and be for a continuously renewing (on a daily basis) three (3) year term, without any further action by either the Company or Executive, unless Executive's employment is terminated in accordance with Section 5 below. The date on which Executive commences employment with the Company shall be referred to as the "Commencement Date" and the period during which Executive is employed hereunder shall be referred to as the "Employment Period".

3. DUTIES AND RESPONSIBILITIES.

- (a) Executive shall serve as Sr. Vice President-Information Technology. Executive will report either to the Chief Executive Officer, President, or Executive Vice President designated by the Chief Executive Officer. In such capacity, Executive shall perform such duties and have the power, authority and functions commensurate with such positions in similarly sized public companies and such other authority and functions consistent with such positions as may be assigned to Executive from time to time by the Chief Executive Officer, President, Executive Vice President, or the Board of Directors.
- (b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement), be involved in charitable and professional activities and, with the consent of the Board, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder.

4. COMPENSATION AND BENEFITS.

- (a) BASE SALARY. During the Employment Period, the Company shall pay Executive a base salary at the annual rate of TWO HUNDRED EIGHTY THOUSAND (\$280,000.00) DOLLARS per year or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced.

- (b) ANNUAL BONUS. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company. The Executive's target annual bonus will be forty-five percent (45%) of his Base Salary as in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 90% (two times Target Bonus), and will be determined based upon achievement of performance goals (initially seventy percent [70%] financial [return on capital investments and EBITDA] and thirty percent [30%] personal, but may be tied to other metrics as may be established from time to time by the Compensation Committee of the Board) as approved by the Compensation Committee of the Board, from time to time.
- (c) STOCK OPTIONS. Subject to the approval of the Compensation Committee of the Board of Directors, Executive shall be granted an initial stock option grant for ONE HUNDRED THOUSAND (100,000) shares of the Company's common stock, effective as of the Commencement Date. The exercise price shall be the fair market value on such date, and the option shall vest in equal installments of twenty-five percent (25%) in each of the first four (4) anniversaries of the Commencement Date. Executive shall be eligible to be considered for stock option grants under the Company's annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors, commencing in 2001.
- (d) BENEFIT PLANS AND VACATION. Executive shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to its executive officers at a level commensurate with his position. All waiting periods for welfare plans shall be waived for Executive and Executive's eligible family members. During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. The Executive shall also be entitled to such periods of sick leave as is customarily provided by the Company for its senior executive employees. Executive shall be eligible to participate in the Company's 401(k) Plan after 90 days of employment. Executive shall be eligible to participate in the Company's Employee Stock Purchase Plan beginning January 1, 2000.
- (e) EXPENSE REIMBURSEMENT. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties hereunder in accordance with the Company's customary practices applicable to its executive officers.
- (f) SIGN-ON BONUS. Within thirty (30) days after the Commencement Date, the Company will pay Executive a sign-on bonus in the amount of ONE HUNDRED TWENTY THOUSAND DOLLARS (\$120,000). As of the date of the execution of this Agreement, Executive acknowledges having received this sign-on bonus.
- (g) EXECUTIVE DEFERRAL PLAN. Executive shall be entitled to participate in the Company's "Executive Deferral Plan" beginning January 1, 2000, and any incentive or supplemental compensation plan, or arrangement, all to the extent maintained or instituted by the

Company, and covering its principal executive officers, at a level commensurate with his position.

- (h) **RETIREMENT BENEFIT.** Upon Executive's retirement from the Company following Executive attaining sixty-five (65) years of age, and provided that Executive's employment is not terminated for Cause, the Company will provide Executive an annual retirement benefit in the amount of FIFTY-THOUSAND DOLLARS (\$50,000.00) cash per year for the remainder of his life. This retirement benefit will vest in twenty percent (20%) increments (or \$10,000.00) on each of the Executive's five (5) birthdays beginning on the date Executive attains sixty-one (61) years of age, provided Executive is employed by the Company on each such birth date. Executive may elect to retire from the Company prior to his sixty-fifth birthday, and receive the annual retirement benefit to the extent it is then vested. No amounts will be paid under this paragraph prior to Executive's retirement (or death, if sooner). The annual retirement benefit will be paid on the date of Executive's retirement and on each anniversary of such date of retirement for as long as such amount is to be paid under this paragraph. Following Executive's death, such annual retirement benefit, to the extent vested, will thereafter be paid to Executive's wife, Nancy Smith, if she survives Executive, for the remainder of her life, with such amount being paid on each anniversary of Executive's birth date; provided that in the event Executive is less than forty percent (40%) vested at his death, he will be deemed to be forty percent (40%) vested at his death, so that upon Executive's death, his wife, if she survives Executive, will receive at least \$20,000.00 per year on each anniversary of Executive's birth date for the remainder of her life, under this paragraph. (For example, if Executive elects to retire immediately following his 62nd birthday, Executive will receive an annual retirement benefit of \$20,000 per year, and following Executive's death, if Executive's wife, Nancy Smith, survives Executive, such \$20,000 per year will be paid to her for the remainder of her life on Executive's birth date). No amounts will be payable under this paragraph following the death of both Executive and his wife, Nancy Smith.
- (i) **RELOCATION.** The Company shall promptly reimburse Executive (on a fully grossed up basis for any amounts taxable to Executive), to the extent not already reimbursed by the Company, for reasonable and customary costs incurred in connection with the relocation of his principal residence to the Houston, Texas area at a level commensurate with Executive's position and the type of relocation benefits provided by public companies of similar size to their executives, which shall in any event include the purchase by the Company (or a relocation company) of such residence at its fair market value if not sold within 90 days from the Commencement Date, any real estate commissions incurred in connection with the sale of such residence and any points on a loan for a new home. In addition, the Company shall provide Executive temporary housing in the Houston area for up to six (6) months from the Commencement Date.

5. TERMINATION OF EMPLOYMENT.

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

- (a) DEATH. Executive's employment hereunder shall terminate upon Executive's death.
- (b) TOTAL DISABILITY. The Company may terminate Executive's employment hereunder upon Executive becoming "Totally Disabled". For purposes of this Agreement, Executive shall be "Totally Disabled" if Executive has been physically or mentally incapacitated so as to render Executive incapable of performing Executive's material usual and customary duties under this Agreement for six (6) consecutive months (such consecutive absence not being deemed interrupted by Executive's return to service for less than 10 consecutive business days if absent thereafter for the same illness or disability). Any such termination shall be upon thirty (30) days written notice given at any time thereafter while Executive remains Totally Disabled, provided that a termination for Total Disability hereunder shall not be effective if Executive returns to full performance of his duties within such thirty (30) day period.
- (c) TERMINATION BY THE COMPANY FOR CAUSE. The Company may terminate Executive's employment hereunder for "Cause" at any time within ninety (90) days after the Chairman of the Audit or Governance Committee of the Board has knowledge thereof.
- (i) For purposes of this Agreement, the term "Cause" shall be limited to (1) willful misconduct by Executive with regard to the Company which has a material adverse effect on the Company; (2) the willful refusal of Executive to attempt to follow the proper written direction of the Chief Executive Officer, the President, an Executive Vice President, or the Board of Directors, provided that the foregoing refusal shall not be "Cause" if Executive in good faith believes that such direction is illegal, unethical or immoral and promptly so notifies the Board; (3) substantial and continuing willful refusal by the Executive to attempt to perform the duties required of him hereunder (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Chief Executive Officer, the President, an Executive Vice President, or the Board of Directors, which specifically identifies the manner in which it is believed that the Executive has substantially and continually refused to attempt to perform his duties hereunder; or (4) the Executive being convicted of a felony (other than a felony involving a traffic violation or as a result of vicarious liability). For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of the Company.
- (ii) A Notice of Termination for Cause shall mean a notice that shall indicate the specific termination provision in Section 5(c)(i) relied upon and shall set forth in reasonable detail the facts and circumstances which provide for a basis for termination for Cause. Further, a Notification for Cause shall be required to include a copy of a resolution duly adopted by at least two-thirds (2/3rds) of the entire membership of the Board at a meeting of the Board which was called for the purpose of considering such termination and which Executive and his

representative had the right to attend and address the Board, finding that, in the good faith of the Board, Executive engaged in conduct set forth in the definition of Cause herein and specifying the particulars thereof in reasonable detail. The date of termination for a termination for Cause shall be the date indicated in the Notice of Termination. Any purported termination for Cause which is held by a court or arbitrator not to have been based on the grounds set forth in this Agreement or not to have followed the procedures set forth in this Agreement shall be deemed a termination by the Company without Cause.

- (d) VOLUNTARY TERMINATION BY EXECUTIVE. Executive may terminate employment hereunder with or without Good Reason at any time upon written notice to the Company.
- (i) A Termination for Good Reason means a termination by Executive by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (1) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in connection with the termination of Executive's employment for Cause or Total Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence), provided that the change in reporting structure where Executive reports to either an Executive Vice President of the Company or higher in the Company shall not constitute Good Reason under any circumstances; further provided that if the Company becomes a fifty percent or more subsidiary of any other entity, Executive shall be deemed to have a material diminution of his position unless he is also a Sr. Vice President of the ultimate parent entity; (2) removal of, or the non-re-election of, the Executive from officer positions with the Company specified herein or removal of the Executive from any of his then officer positions; (3) requiring Executive's principal place of business to be located other than in Houston, Texas; (4) a failure by the Company (I) to continue any bonus plan, program or arrangement in which Executive is entitled to participate (the "Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Executive with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (II) to continue Executive as a participant in the Bonus Plans and Substitute Plans on at least the same basis as to potential amount of the bonus as Executive participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans; (5) any material breach by the Company of any provision of this Agreement, including without limitation Section 10 hereof; or (6) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder.

(ii) A Notice of Termination for Good Reason shall mean a notice that shall indicate the specific termination provision relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The failure by Executive to set forth in the Notice of Termination for Good Reason any facts or circumstances which contribute to the showing of Good Reason shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(1) or (2) the date may be five (5) days after the giving of such notice.

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

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

6. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

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

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

(i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, any earned but unpaid bonuses for any prior period, and, to the extent not otherwise paid, a pro-rata "bonus" or incentive compensation payment to the extent payments are awarded to senior executives of the Company and paid at the same time as senior executives are paid.

(ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.

(iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's death) which would have been payable to Executive if Executive had continued in employment for two additional years. Said payments will be paid to

Executive's estate or beneficiary at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment.

- (iv) As of the date of termination by reason of Executive's death, stock options awarded to Executive shall be fully vested and Executive's estate or beneficiary shall have up to one (1) year from the date of death to exercise all such options, provided that in no event will any option be exercisable beyond its term.
 - (v) As otherwise specifically provided herein, including the retirement benefit to the extent payable to Executive's wife, Nancy Smith, if she survives Executive, for her life, pursuant to Section 4(h).
- (b) TERMINATION BY REASON OF TOTAL DISABILITY. In the event that Executive's employment is terminated by reason of Executive's Total Disability as determined in accordance with Section 5(b), the Company shall pay the following amounts to Executive:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period. Executive shall also be eligible for a pro-rata bonus or incentive compensation payment to the extent such awards are made to senior executives of the Company for the year in which Executive is terminated, and to the extent not otherwise paid to the Executive.
 - (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
 - (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's Total Disability) which would have been payable to Executive if Executive had continued in active employment for two years following termination of employment, less any payments under any long-term disability plan or arrangement paid for by the Company. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment until the end of such period.
 - (iv) As of the date of termination by reason of Executive's Total Disability, Executive shall be fully vested in all stock option awards and Executive shall have up to one (1) year from the date of termination by reason of Total Disability to exercise all such options; provided that in no event will any option be exercisable beyond its term.
 - (v) As otherwise specifically provided herein, including the retirement benefit to the extent payable pursuant to Section 4(h).

- (c) TERMINATION FOR CAUSE. In the event that Executive's employment is terminated by the Company for Cause, the Company shall pay the following amounts to Executive:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
 - (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
 - (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and any options held by Executive shall be cancelled, whether or not then vested.

- (d) VOLUNTARY TERMINATION BY EXECUTIVE. In the event that Executive voluntarily terminates employment other than for Good Reason, the Company shall pay the following amounts to Executive:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
 - (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
 - (iii) In the event of such termination due to Executive's retirement following Executive's sixty-first (61st) birthday, Executive shall be entitled to the annual retirement benefit to the extent payable pursuant to Section 4(h).
 - (iv) As otherwise specifically provided herein.

In the event of such termination prior to Executive's sixty-first (61st) birthday, any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and Executive shall have ninety (90) days following termination of employment to exercise any previously vested options; provided that in no event will any option be exercisable beyond its term. In the event of such termination due to Executive's retirement following Executive's sixty-first (61st)

birthday, any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled and Executive shall have three (3) years following such termination of employment due to retirement to exercise any previously vested options; provided that in no event will any option be exercisable beyond its term.

- (e) TERMINATION BY THE COMPANY WITHOUT CAUSE; TERMINATION BY EXECUTIVE FOR GOOD REASON. In the event that Executive's employment is terminated by the Company for reasons other than death, Total Disability or Cause, or Executive terminates his employment for Good Reason, the Company shall pay the following amounts to Executive:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
 - (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(d) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
 - (iii) Base Salary (as then in effect) shall continue to be paid to Executive during the three (3) year period beginning on the date of Executive's termination and shall be paid at the same time, in the same amount (as in effect on the date of termination) and in the same manner as Base Salary would have been paid if Executive had remained in active employment until the end of such period.
 - (iv) The Company at its expense will continue for Executive and Executive's spouse and dependents, all health benefit plans, programs or arrangements, whether group or individual, and also including deferred compensation, disability, automobile, and other benefit plans, in which Executive was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) three years after the date of termination; (B) Executive's death (provided that benefits payable to Executive's beneficiaries shall not terminate upon Executive's death); or (C) with respect to any particular plan, program or arrangement, the date Executive becomes covered by a comparable benefit by a subsequent employer. In the event that Executive's continued participation in any such plan, program, or arrangement of the Company is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under such plan, program, or arrangement, for such period on a basis which provides Executive with no additional after tax cost.
 - (v) Except to the extent prohibited by law, and except as otherwise provided herein, Executive will be 100% vested in all benefits, awards, and grants accrued but unpaid as of the date of termination under any pension plan, profit sharing plan, supplemental and/or incentive compensation plans in which Executive was a participant as of the date of termination.

(vi) Executive shall continue to vest in all stock option awards or restricted stock awards over the three (3) year period commencing on the date of such termination. Executive shall have ninety (90) days following the expiration of such three (3) year period to exercise all options to the extent then vested, provided that in no event will any option be exercisable beyond its term.

(vii) As otherwise specifically provided herein, including the retirement benefit to the extent payable pursuant to Section 4(h).

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

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

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

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

(i) The payments and benefits provided for in Section 6(e), except that the severance amount pursuant to Section 6(e)(iii) will be paid in a lump-sum.

(ii) Executive will be 100% vested in all benefits, awards, and grants (including stock option grants and stock awards, all of such stock options exercisable for three (3) years following Termination, provided that in no event will any option be exercisable beyond its term) accrued but unpaid as of the date of termination under any non-qualified pension plan, supplemental and/or incentive compensation or bonus plans, in which Executive was a participant as of the date

of termination. Executive shall also receive a bonus or incentive compensation payment (the "bonus payment"), payable at 100% of the maximum bonus available to Executive, pro-rated as of the effective date of the termination. The bonus payment shall be payable within five (5) days after the effective date of Employee's termination. Except as may be provided under this Section 7 or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's resignation from employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such resignation or termination.

(b) CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

- (i) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (iv) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this Section 7(b), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.
- (ii) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G[b][3] of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G[b][2]) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

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

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

- (iv) The Gross-up Payment or portion thereof provided for in subsection (iii) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (iii) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently

determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

- (v) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.
- (vi) The Company shall be responsible for all charges of the Accountant.
- (vii) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Section 7(b).

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

- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding voting securities;
- (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Commencement Date, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of the at least two-thirds (2/3rds) of the directors then still in office who either were directors on the Commencement Date or whose appointment, election or nomination for election was previously so approved or recommended;
- (iii) there is a consummated merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the

Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving or parent equity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person, directly or indirectly, acquired twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates); or

- (iv) the stock holders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

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

- (i) "Affiliate" shall mean an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");
- (ii) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act;
- (iii) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.

8. RESTRICTIVE COVENANTS.

- (a) COMPETITIVE ACTIVITY. Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for two (2) years thereafter, Executive will not engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 3% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is materially engaged in the waste management business competitive with

that conducted and carried on by the Company, without the Company's specific written consent to do so. "Material" shall mean more than five (5%) percent of their revenue is generated from the waste management business; provided that the revenues within Executive's area of responsibility or authority are more than 10% composed of revenues from the waste disposal business.

- (b) NON-SOLICITATION. Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for a period of two (2) years after the Termination thereof, whether such termination is voluntary or involuntary by wrongful discharge, or otherwise, Executive will not directly and personally knowingly (i) induce any customers of the Company or corporations affiliated with the Company to patronize any similar business which competes with any material business of the Company; (ii) after his termination of employment, request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; or (iii) after his termination of employment, individually or through any person, firm, association or corporation with which he is now, or may hereafter become associated, solicit, entice or induce any then employee of the Company, or any subsidiary of the Company, to leave the employ of the Company, or such other corporation, to accept employment with, or compensation from the Executive, or any person, firm, association or corporation with which Executive is affiliated without prior written consent of the Company. The foregoing shall not prevent Executive from serving as a reference for employees.
- (c) PROTECTED INFORMATION. Executive recognizes and acknowledges that Executive has had and will continue to have access to various confidential or proprietary information concerning the Company and corporations affiliated with the Company of a special and unique value which may include, without limitation, (i) books and records relating to operation, finance, accounting, sales, personnel and management, (ii) policies and matters relating particularly to operations such as customer service requirements, costs of providing service and equipment, operating costs and pricing matters, and (iii) various trade or business secrets, including customer lists, route sheets, business opportunities, marketing or business diversification plans, business development and bidding techniques, methods and processes, management information systems, financial data and the like, to the extent not generally known in the industry (collectively, the "Protected Information"). Executive therefore covenants and agrees that Executive will not at any time, either while employed by the Company or afterwards, knowingly make any independent use of, or knowingly disclose to any other person or organization (except as authorized by the Company) any of the Protected Information, provided that (i) while employed by the Company, Executive may in good faith make disclosures he believes desirable, provided that are authorized by the Company or otherwise in accordance with Company policy, and (ii) Executive may comply with legal process.
9. ENFORCEMENT OF COVENANTS.
- (a) RIGHT TO INJUNCTION. Executive acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages may be inadequate. Therefore, in the event of

breach or threatened breach of the covenants set forth in this section by Executive, Executive and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; injunctions, both preliminary and permanent, enjoining or restraining such breach or threatened breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction.

- (b) SEPARABILITY OF COVENANTS. The covenants contained in Section 8 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

Executive and the Company further agree that the covenants in Section 8 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. INDEMNIFICATION.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Delaware law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. This provision includes the obligation and undertaking of the Executive to reimburse the Company for any fees advanced by the Company on behalf of the Executive should it later be determined that Executive was not entitled to have such fees advanced by the Company under Delaware law. The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent as the Company covers its other officers and directors.

11. DISPUTES AND PAYMENT OF ATTORNEY'S FEES.

If at any time during the term of this Agreement or afterwards there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Executive (and Executive shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Executive) Executive's costs and reasonable attorney's fees (including expenses of investigation and

disbursements for the fees and expenses of experts, etc.) incurred by Executive in connection with any such dispute or any litigation, provided that Executive shall repay any such amounts paid or advanced if Executive is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. The provisions of this Section 11, without implication as to any other section hereof, shall survive the expiration or termination of this Agreement and of Executive's employment hereunder.

12. WITHHOLDING OF TAXES.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

13. SOURCE OF PAYMENTS.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

14. ASSIGNMENT.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's designated beneficiary or, if none, his estate) and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer in a writing delivered to Executive in a form reasonably acceptable to Executive (the provisions of this sentence also being applicable to any successive such transaction).

15. ENTIRE AGREEMENT; AMENDMENT.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company, including without limitation, that certain offer letter dated November 18, 1999 by and between Executive and the Company. It may not be amended except by a written agreement signed by both parties.

16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions.

17. REQUIREMENT OF TIMELY PAYMENTS.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

18. NOTICES.

Any notice, consent, request or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company: Waste Management, Inc.
1001 Fannin, Suite 4000
Houston, Texas 77002
Attention: Corporate Secretary

To Executive: At the address for Executive set forth below.

19. MISCELLANEOUS.

- (a) WAIVER. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) SEPARABILITY. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.
- (c) HEADINGS. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.

- (d) RULES OF CONSTRUCTION. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

WASTE MANAGEMENT, INC.

By: /s/ A. Maurice Myers

Name: A. Maurice Myers

Title: Chairman, Chief Executive Officer and President

Date: April 14, 2000

EXECUTIVE

/s/ Thomas L. Smith

THOMAS L. SMITH

Date: April 11, 2000

Address:

EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC. (the "Company"), and ROBERT E. DEES, JR. (the "Executive") hereby enter into this EMPLOYMENT AGREEMENT ("Agreement") dated as of May 10, 2000 (the "Effective Date"), as follows:

1. EMPLOYMENT.

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

2. TERM OF EMPLOYMENT.

The period of Executive's employment under this Agreement shall commence on May 22, 2000, and be for a continuously renewing (on a daily basis) three (3) year term, without any further action by either the Company or Executive, unless Executive's employment is terminated in accordance with Section 5 below. The date on which Executive commences employment with the Company shall be referred to as the "Commencement Date" and the period during which Executive is employed hereunder shall be referred to as the "Employment Period".

3. DUTIES AND RESPONSIBILITIES.

- (a) Executive shall serve as Senior Vice President-People. In such capacity, Executive shall perform such duties and have the power, authority and functions commensurate with such positions in similarly sized public companies and such other authority and functions consistent with such positions as may be assigned to Executive from time to time by the Chief Executive Officer, President, or the Board of Directors.
- (b) Executive shall devote substantially all of his working time, attention and energies to the business of the Company, and affiliated entities. Executive may make and manage his personal investments (provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement), be involved in charitable and professional activities and, with the consent of the Board, serve on boards of other for profit entities, provided such activities do not materially interfere with the performance of his duties hereunder.

4. COMPENSATION AND BENEFITS.

- (a) BASE SALARY. During the Employment Period, the Company shall pay Executive a base salary at the annual rate of THREE HUNDRED FIFTY THOUSAND DOLLARS (\$350,000.00) per year or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for its executive officers. Once increased, Base Salary shall not be reduced.

- (b) ANNUAL BONUS. During the Employment Period, Executive will be entitled to participate in an annual incentive compensation plan of the Company. The Executive's target annual bonus will be seventy-five percent (75%) of his Base Salary as in effect for such year (the "Target Bonus"), and his actual annual bonus may range from 0% to 200% (2 times Target Bonus), and will be determined based upon achievement of performance goals (initially seventy percent [70%] financial [return on capital investments and EBITDA] and thirty percent [30%] personal, but may be tied to other metrics as may be established from time to time by the Compensation Committee of the Board) as approved by the Compensation Committee of the Board, from time to time. The bonus for the year 2000 is guaranteed to be a minimum of \$262,500.000, and will be paid at the same time annual bonus are paid to other executives of the Company in 2001.
- (c) STOCK OPTIONS. Subject to the approval of the Compensation Committee of the Board of Directors, Executive shall be granted an initial stock option grant for TWO HUNDRED THOUSAND (200,000) shares of the Company's common stock, effective as of the Effective Date. The exercise price shall be the fair market value on such date, and the option shall vest in equal installments of twenty-five percent (25%) on each of the first four (4) anniversaries of the Commencement Date. Executive shall be eligible to be considered for stock option grants under the Company's annual stock option award program as administered by, and at the discretion of, the Compensation Committee of the Board of Directors, beginning in 2001.
- (d) BENEFIT PLANS AND VACATION. Executive shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, or any other health, welfare or fringe benefit plan, generally made available by the Company to its executive officers at a level commensurate with his position. During the Employment Period, Executive shall be entitled to vacation each year in accordance with the Company's policies in effect from time to time, but in no event less than four (4) weeks paid vacation per calendar year. The Executive shall also be entitled to such periods of sick leave as is customarily provided by the Company for its senior executive employees. Executive shall be eligible to participate in the Company's 401(k) Plan after 90 days of employment.
- (e) EXPENSE REIMBURSEMENT. The Company shall promptly reimburse Executive for the ordinary and necessary business expenses incurred by Executive in the performance of the duties hereunder in accordance with the Company's customary practices applicable to its executive officers.
- (f) SIGN-ON BONUS. Within thirty (30) days after the Commencement Date, the Company will pay Executive a sign-on bonus in the amount of ONE HUNDRED FIFTY THOUSAND DOLLARS (\$150,000).
- (g) EXECUTIVE DEFERRAL PLAN. Executive shall be entitled to participate in the Company's "Executive Deferral Plan", and any replacement plan or arrangement, all to the extent maintained or instituted by the Company, and covering its principal executive officers, at a level commensurate with his position.

- (h) RELOCATION. The Company shall promptly reimburse Executive (on a fully grossed up basis for any amounts taxable to Executive), for reasonable and customary costs incurred in connection with the relocation of his principal residence to the Houston, Texas area at a level commensurate with Executive's position and the type of relocation benefits provided by public companies of similar size to their executives, which shall in any event include the purchase by the Company (or a relocation company) of such residence at its fair market value if not sold within 90 days from the Commencement Date, any real estate commissions incurred in connection with the sale of such residence and any points on a loan for a new home. In addition, the Company shall provide Executive temporary housing in the Houston area for up to six (6) months from the Commencement Date.
- (i) OTHER PERQUISITES. Executive shall be entitled to the following benefits:
1. Auto Allowance in the amount of one thousand (\$1,000) dollars per month; and
 2. Financial Planning Services at actual cost, and not to exceed ten thousand (\$10,000) dollars annually.
 3. An Annual Physical Examination on a program designated by the Company.

5. TERMINATION OF EMPLOYMENT.

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

- (a) DEATH. Executive's employment hereunder shall terminate upon Executive's death.
- (b) TOTAL DISABILITY. The Company may terminate Executive's employment hereunder upon Executive becoming "Totally Disabled". For purposes of this Agreement, Executive shall be "Totally Disabled" if Executive has been physically or mentally incapacitated so as to render Executive incapable of performing Executive's material usual and customary duties under this Agreement for six (6) consecutive months (such consecutive absence not being deemed interrupted by Executive's return to service for less than 10 consecutive business days if absent thereafter for the same illness or disability). Any such termination shall be upon thirty (30) days written notice given at any time thereafter while Executive remains Totally Disabled, provided that a termination for Total Disability hereunder shall not be effective if Executive returns to full performance of his duties within such thirty (30) day period.
- (c) TERMINATION BY THE COMPANY FOR CAUSE. The Company may terminate Executive's employment hereunder for "Cause" at any time within ninety (90) days after the Chairman of the Audit or Governance Committee of the Board has knowledge thereof.
- (i) For purposes of this Agreement, the term "Cause" shall be limited to (1) willful misconduct by Executive with regard to the Company which has a material

adverse effect on the Company; (2) the willful refusal of Executive to attempt to follow the proper written direction of the Chief Executive Officer, the President, or the Board of Directors, provided that the foregoing refusal shall not be "Cause" if Executive in good faith believes that such direction is illegal, unethical or immoral and promptly so notifies the Board; (3) substantial and continuing willful refusal by the Executive to attempt to perform the duties required of him hereunder (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Chief Executive Officer, the President, or the Board of Directors, which specifically identifies the manner in which it is believed that the Executive has substantially and continually refused to attempt to perform his duties hereunder; or (4) the Executive being convicted of a felony (other than a felony involving a traffic violation or as a result of vicarious liability). For purposes of this paragraph, no act, or failure to act, on Executive's part shall be considered "willful" unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of the Company.

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

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

(i) A Termination for Good Reason means a termination by Executive by written notice given within ninety (90) days after the occurrence of the Good Reason event, unless such circumstances are fully corrected prior to the date of termination specified in the Notice of Termination for Good Reason. For purposes of this Agreement, "Good Reason" shall mean the occurrence or failure to cause the occurrence, as the case may be, without Executive's express written consent, of any of the following circumstances: (1) any material diminution of Executive's positions, duties or responsibilities hereunder (except in each case in

connection with the termination of Executive's employment for Cause or Total Disability or as a result of Executive's death, or temporarily as a result of Executive's illness or other absence), provided that a change in reporting structure shall not constitute Good Reason under any circumstances as long as Executive reports to the Chief Executive Officer, the President, the Chief Operating Officer, or an Executive Vice President; further provided that if the Company becomes a fifty percent or more subsidiary of any other entity, Executive shall be deemed to have a material diminution of his position unless he is also Senior Vice President of the ultimate parent entity; (2) removal of, or the non-re-election of, the Executive from officer positions with the Company specified herein or removal of the Executive from any of his then officer positions; (3) requiring Executive's principal place of business to be located other than in Houston, Texas; (4) a failure by the Company (I) to continue any bonus plan, program or arrangement in which Executive is entitled to participate (the "Bonus Plans"), provided that any such Bonus Plans may be modified at the Company's discretion from time to time but shall be deemed terminated if (x) any such plan does not remain substantially in the form in effect prior to such modification and (y) if plans providing Executive with substantially similar benefits are not substituted therefor ("Substitute Plans"), or (II) to continue Executive as a participant in the Bonus Plans and Substitute Plans on at least the same basis as to potential amount of the bonus as Executive participated in prior to any change in such plans or awards, in accordance with the Bonus Plans and the Substitute Plans; (5) any material breach by the Company of any provision of this Agreement, including without limitation Section 10 hereof; or (6) failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to Executive upon the assignee becoming such, the obligations of the Company hereunder.

- (ii) A Notice of Termination for Good Reason shall mean a notice that shall indicate the specific termination provision relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for Termination for Good Reason. The failure by Executive to set forth in the Notice of Termination for Good Reason any facts or circumstances which contribute to the showing of Good Reason shall not waive any right of Executive hereunder or preclude Executive from asserting such fact or circumstance in enforcing his rights hereunder. The Notice of Termination for Good Reason shall provide for a date of termination not less than ten (10) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is given, provided that in the case of the events set forth in Sections 5(d)(i)(1) or (2) the date may be five (5) days after the giving of such notice.

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

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

6. COMPENSATION FOLLOWING TERMINATION OF EMPLOYMENT.

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

- (a) Termination by Reason of Death. In the event that Executive's employment is terminated by reason of Executive's death, the Company shall pay the following amounts to Executive's beneficiary or estate:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination, any earned but unpaid bonuses for any prior period, and, to the extent not otherwise paid, a pro-rata "bonus" or incentive compensation payment to the extent payments are awarded to senior executives of the Company and paid at the same time as senior executives are paid.
 - (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof), as determined and paid in accordance with the terms of such plans, policies and arrangements.
 - (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's death) which would have been payable to Executive if Executive had continued in employment for two additional years. Said payments will be paid to Executive's estate or beneficiary at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment.
 - (iv) As of the date of termination by reason of Executive's death, stock options awarded to Executive shall be fully vested and Executive's estate or beneficiary shall have up to one (1) year from the date of death to exercise all such options, provided that in no event will any option be exercisable beyond its term.
 - (v) As otherwise specifically provided herein.
- (b) TERMINATION BY REASON OF TOTAL DISABILITY. In the event that Executive's employment is terminated by reason of Executive's Total Disability as determined in accordance with Section 5(b), the Company shall pay the following amounts to Executive:
- (i) Any accrued but unpaid Base Salary for services rendered to the date of

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

- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to the Base Salary (at the rate in effect as of the date of Executive's Total Disability) which would have been payable to Executive if Executive had continued in active employment for two years following termination of employment, less any payments under any long-term disability plan or arrangement paid for by the Company. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Executive had remained in active employment until the end of such period.
- (iv) As of the date of termination by reason of Executive's Total Disability, Executive shall be fully vested in all stock option awards, and Executive shall have up to one (1) year from the date of termination by reason of Total Disability to exercise all such options; provided that in no event will any option be exercisable beyond its term.
- (v) As otherwise specifically provided herein.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled to the extent not then vested, and any options held by Executive shall be cancelled, whether or not then vested.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements (including those referred to in Section 4(d) hereof up to the date of termination) shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) As otherwise specifically provided herein.

Any options, restricted stock or other awards that have not vested prior to the date of such termination of employment shall be cancelled to the extent not then vested, and Executive shall have 90 days following termination of employment to exercise any previously vested options; provided that in no event will any option be exercisable beyond its term.

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

- (i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination and any earned but unpaid bonuses for any prior period.
- (ii) Any benefits to which Executive may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(d) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.
- (iii) An amount equal to two times the sum of Executive's Base Salary plus his Target Annual Bonus (in each case as then in effect), of which one-half shall be paid in a lump sum within ten (10) days after such termination and one-half shall be paid during the two (2) year period beginning on the date of Executive's termination and shall be paid at the same time and in the same manner as Base Salary would

have been paid if Executive had remained in active employment until the end of such period.

- (iv) The Company at its expense will continue for Executive and Executive's spouse and dependents, all health benefit plans, programs or arrangements, whether group or individual, and also including deferred compensation, disability, automobile, and other benefit plans, in which Executive was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earliest to occur of (A) two years after the date of termination; (B) Executive's death (provided that benefits payable to Executive's beneficiaries shall not terminate upon Executive's death); or (C) with respect to any particular plan, program or arrangement, the date Executive becomes covered by a comparable benefit by a subsequent employer. In the event that Executive's continued participation in any such plan, program, or arrangement of the Company is prohibited, the Company will arrange to provide Executive with benefits substantially similar to those which Executive would have been entitled to receive under such plan, program, or arrangement, for such period on a basis which provides Executive with no additional after tax cost.
- (v) Except to the extent prohibited by law, and except as otherwise provided herein, Executive will be 100% vested in all benefits, awards, and grants accrued but unpaid as of the date of termination under any pension plan, profit sharing plan, supplemental and/or incentive compensation plans in which Executive was a participant as of the date of termination. Executive shall also be eligible for a bonus or incentive compensation payment, at the same time, on the same basis, and to the same extent payments are made to senior executives of the Company, pro-rated for the fiscal year in which the Executive is terminated.
- (vi) Executive shall continue to vest in all stock option awards or restricted stock awards over the two (2) year period commencing on the date of such termination. Executive shall have two (2) years and six (6) months after the date of termination to exercise all options to the extent then vested, provided that in no event will any option be exercisable beyond its term.
- (vii) As otherwise specifically provided herein.
- (f) **NO OTHER BENEFITS OR COMPENSATION.** Except as may be provided under this Agreement, under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's termination or resignation of employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.
- (g) **NO MITIGATION; NO SET-OFF.** In the event of any termination of employment hereunder, Executive shall be under no obligation to seek other employment and there shall be no

offset against any amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except upon obtaining by the Company of a final unappealable judgment against Executive.

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

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

- (i) The payments and benefits provided for in Section 6(e), except that the amount shall be paid in a lump-sum.
- (ii) Executive will be 100% vested in all benefits, awards, and grants (including stock option grants and stock awards; all of such stock options exercisable for two (2) years following Termination, provided that in no event will any option be exercisable beyond its term) accrued but unpaid as of the date of termination under any non-qualified pension plan, supplemental and/or incentive compensation or bonus plans, in which Executive was a participant as of the date of termination. Executive shall also receive a bonus or incentive compensation payment (the "bonus payment"), payable at 100% of the maximum bonus available to Executive, pro-rated as of the effective date of the termination. The bonus payment shall be payable within five (5) days after the effective date of Employee's termination. Except as may be provided under this Section 7 or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Executive at the time of Executive's resignation from employment, Executive shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such resignation or termination.

(b) CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

- (i) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any

person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (iv) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this Section 7(b), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.

- (ii) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G[b][3] of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G[b][2]) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.
- (iii) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction),

plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

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

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

the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.

- (vi) The Company shall be responsible for all charges of the Accountant.
 - (vii) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Section 7(b).
- (c) CHANGE IN CONTROL. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events:
- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates) representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding voting securities;
 - (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the Commencement Date, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of the at least two-thirds (2/3rds) of the directors then still in office who either were directors on the Commencement Date or whose appointment, election or nomination for election was previously so approved or recommended;
 - (iii) there is a consummated merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving or parent equity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person, directly or indirectly, acquired twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its Affiliates); or

- (iv) the stock holders of the Company approve a plan of complete liquidation of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction having a similar effect), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

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

- (i) "Affiliate" shall mean an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");
- (ii) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act;
- (iii) "Person" shall have the meaning set forth in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (1) the Company, (2) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) an underwriter temporarily holding securities pursuant to an offering of such securities or (4) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.

8. RESTRICTIVE COVENANTS.

- (a) **COMPETITIVE ACTIVITY.** Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for two (2) years thereafter, Executive will not engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 3% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is materially engaged in the waste management business competitive with that conducted and carried on by the Company, without the Company's specific written consent to do so. "Material" shall mean more than five (5%) percent of their revenue is generated from the waste management business; provided that the revenues within Executive's area of responsibility or authority are more than 10% composed of revenues from the waste disposal business.
- (b) **NON-SOLICITATION.** Executive covenants and agrees that at all times during Executive's period of employment with the Company, and for a period of two (2) years after the Termination thereof, whether such termination is voluntary or involuntary by wrongful

discharge, or otherwise, Executive will not directly and personally knowingly (i) induce any customers of the Company or corporations affiliated with the Company to patronize any similar business which competes with any material business of the Company; (ii) after his termination of employment, request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; or (iii) after his termination of employment, individually or through any person, firm, association or corporation with which he is now, or may hereafter become associated, solicit, entice or induce any then employee of the Company, or any subsidiary of the Company, to leave the employ of the Company, or such other corporation, to accept employment with, or compensation from the Executive, or any person, firm, association or corporation with which Executive is affiliated without prior written consent of the Company. The foregoing shall not prevent Executive from serving as a reference for employees.

- (c) PROTECTED INFORMATION. Executive recognizes and acknowledges that Executive has had and will continue to have access to various confidential or proprietary information concerning the Company and corporations affiliated with the Company of a special and unique value which may include, without limitation, (i) books and records relating to operation, finance, accounting, sales, personnel and management, (ii) policies and matters relating particularly to operations such as customer service requirements, costs of providing service and equipment, operating costs and pricing matters, and (iii) various trade or business secrets, including customer lists, route sheets, business opportunities, marketing or business diversification plans, business development and bidding techniques, methods and processes, financial data and the like, to the extent not generally known in the industry (collectively, the "Protected Information"). Executive therefore covenants and agrees that Executive will not at any time, either while employed by the Company or afterwards, knowingly make any independent use of, or knowingly disclose to any other person or organization (except as authorized by the Company) any of the Protected Information, provided that (i) while employed by the Company, Executive may in good faith make disclosures he believes desirable, provided that are authorized by the Company or otherwise in accordance with Company policy, and (ii) Executive may comply with legal process.

9. ENFORCEMENT OF COVENANTS.

- (a) RIGHT TO INJUNCTION. Executive acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages may be inadequate. Therefore, in the event of breach or threatened breach of the covenants set forth in this section by Executive, Executive and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; injunctions, both preliminary and permanent, enjoining or restraining such breach or threatened breach and Executive hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction.

- (b) SEPARABILITY OF COVENANTS. The covenants contained in Section 8 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Executive and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding.

Executive and the Company further agree that the covenants in Section 8 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Executive against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. INDEMNIFICATION.

The Company shall indemnify and hold harmless Executive to the fullest extent permitted by Delaware law for any action or inaction of Executive while serving as an officer and director of the Company or, at the Company's request, as an officer or director of any other entity or as a fiduciary of any benefit plan. This provision includes the obligation and undertaking of the Executive to reimburse the Company for any fees advanced by the Company on behalf of the Executive should it later be determined that Executive was not entitled to have such fees advanced by the Company under Delaware law. The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent as the Company covers its other officers and directors.

11. DISPUTES AND PAYMENT OF ATTORNEY'S FEES.

If at any time during the term of this Agreement or afterwards there should arise any dispute as to the validity, interpretation or application of any term or condition of this Agreement, the Company agrees, upon written demand by Executive (and Executive shall be entitled upon application to any court of competent jurisdiction, to the entry of a mandatory injunction, without the necessity of posting any bond with respect thereto, compelling the Company) to promptly provide sums sufficient to pay on a current basis (either directly or by reimbursing Executive) Executive's costs and reasonable attorney's fees (including expenses of investigation and disbursements for the fees and expenses of experts, etc.) incurred by Executive in connection with any such dispute or any litigation, provided that Executive shall repay any such amounts paid or advanced if Executive is not the prevailing party with respect to at least one material claim or issue in such dispute or litigation. The provisions of this Section 11, without

implication as to any other section hereof, shall survive the expiration or termination of this Agreement and of Executive's employment hereunder.

12. WITHHOLDING OF TAXES.

The Company may withhold from any compensation and benefits payable under this Agreement all applicable federal, state, local, or other taxes.

13. SOURCE OF PAYMENTS.

All payments provided under this Agreement, other than payments made pursuant to a plan which provides otherwise, shall be paid from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets made, to assure payment. Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

14. ASSIGNMENT.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Executive (but any payments due hereunder which would be payable at a time after Executive's death shall be paid to Executive's designated beneficiary or, if none, his estate) and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer in a writing delivered to Executive in a form reasonably acceptable to Executive (the provisions of this sentence also being applicable to any successive such transaction).

15. ENTIRE AGREEMENT; AMENDMENT.

This Agreement shall supersede any and all existing oral or written agreements, representations, or warranties between Executive and the Company or any of its subsidiaries or affiliated entities relating to the terms of Executive's employment by the Company. It may not be amended except by a written agreement signed by both parties.

16. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed in that State, without regard to its conflict of laws provisions.

17. REQUIREMENT OF TIMELY PAYMENTS.

If any amounts which are required, or determined to be paid or payable, or reimbursed or reimbursable, to Executive under this Agreement (or any other plan, agreement, policy or arrangement with the Company) are not so paid promptly at the times provided herein or therein, such amounts shall accrue interest, compounded daily, at an 8% annual percentage rate, from the date such amounts were required or determined to have been paid or payable, reimbursed or reimbursable to Executive, until such amounts and any interest accrued thereon are finally and fully paid, provided, however, that in no event shall the amount of interest contracted for, charged or received hereunder, exceed the maximum non-usurious amount of interest allowed by applicable law.

18. NOTICES.

Any notice, consent, request or other communication made or given in connection with this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by registered or certified mail, return receipt requested, or by facsimile or by hand delivery, to those listed below at their following respective addresses or at such other address as each may specify by notice to the others:

To the Company: Waste Management , Inc.
1001 Fannin, Suite 4000
Houston, Texas 77002
Attention: Corporate Secretary

To Executive: At the address for Executive set forth below.

19. MISCELLANEOUS.

- (a) WAIVER. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.
- (b) SEPARABILITY. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

- (c) HEADINGS. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.
- (d) RULES OF CONSTRUCTION. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.
- (e) COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

WASTE MANAGEMENT, INC.

By: /s/ Lawrence O'Donnell, III

 Name: Lawrence O'Donnell, III
 Title: Sr. Vice President, General
 Counsel & Secretary

 Date: May 11, 2000

EXECUTIVE:

/s/ Robert E. Dees, Jr.

 ROBERT E. DEES, JR.

 Date: May 10, 2000
 Address: -----

WASTE MANAGEMENT, INC.

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

	Three Months Ended March 31,	
	----- 2000 -----	1999 -----
Income before income taxes and minority interest	\$ 125,825	\$ 601,122
	-----	-----
Fixed charges deducted from income:		
Interest expense	210,209	176,157
Implicit interest in rents	15,945	19,899
	-----	-----
	226,154	196,056
	-----	-----
Earnings available for fixed charges	\$ 351,979	\$ 797,178
	=====	=====
Interest expense	\$ 210,209	\$ 176,157
Capitalized interest	4,265	11,110
Implicit interest in rents	15,945	19,899
	-----	-----
Total fixed charges	\$ 230,419	\$ 207,166
	=====	=====
Ratio of earnings to fixed charges	1.53	3.85
	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF WASTE MANAGEMENT, INC. FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	DEC-31-2000	
	JAN-01-2000	
	MAR-31-2000	
		147,422
		0
		1,865,767
		(251,654)
		115,160
		5,906,022
		16,516,903
		(6,380,462)
		22,224,181
6,962,022		1,201,757
		0
		0
		6,290
		4,446,472
22,224,181		3,217,309
		3,217,309
		0
		2,903,489
		0
		0
		210,209
		119,853
		64,850
		55,003
		0
		0
		0
		55,003
		.09
		.09