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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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	73-1309529
(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

The number of shares of Common Stock, $.01 par value, of the registrant outstanding at August 4, 2000 was 621,594,978 (excluding treasury shares of 8,014,471).

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PART I.

ITEM 1. FINANCIAL STATEMENTS.

WASTE MANAGEMENT, INC.

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

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,545	$ 181,357
Accounts receivable, net	1,658,558	1,907,287
Parts and supplies	116,468	107,222
Deferred income taxes	293,726	298,433
Prepaid expenses and other	148,190	190,744
Operations held for sale	2,055,674	3,535,502
Total current assets	4,376,161	6,220,545
Property and equipment, net	10,123,759	10,303,803
Excess of cost over net assets of acquired businesses, net	5,203,523	5,185,909
Other intangible assets, net	163,708	170,768
Other assets	789,415	800,399
Total assets	$20,656,566	$22,681,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 940,591	$ 1,062,536
Accrued liabilities	1,375,905	1,512,873
Deferred revenues	387,987	407,084
Current maturities of long-term debt	2,063,106	3,098,742
Operations held for sale	596,158	1,408,220
Total current liabilities	5,363,747	7,489,455
Long-term debt, less current maturities	8,054,610	8,399,346
Deferred income taxes	848,190	729,902
Environmental liabilities	842,232	837,407
Other liabilities	808,516	815,028
Total liabilities	15,917,295	18,271,138
Minority interest in subsidiaries	9,302	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; 629,108,090 and 627,283,618 shares issued, respectively	6,291	6,273
Additional paid-in capital	4,486,061	4,440,159
Retained earnings	718,064	662,746
Accumulated other comprehensive income (loss)	(323,405)	(563,086)
Restricted stock unearned compensation	(3,874)	(3,936)
Treasury stock at cost, 121,859 and 73,709 shares, respectively	(3,208)	(3,890)
Employee stock benefit trust at market, 7,892,612 shares	(149,960)	(135,654)
Total stockholders' equity	4,729,969	4,402,612
Total liabilities and stockholders' equity	$20,656,566	$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)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Operating revenues	$3,265,711	$3,324,775	$6,483,020	$6,395,410
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	1,949,143	1,836,193	3,904,859	3,496,976
General and administrative	444,830	297,704	938,841	573,642
Depreciation and amortization	362,308	393,433	712,717	749,765
Merger and acquisition related costs	--	62,211	--	79,695
Asset impairments and unusual items	216,444	19,750	308,682	19,750
	2,972,725	2,609,291	5,865,099	4,919,828
Income from operations	292,986	715,484	617,921	1,475,582
Other income (expense):				
Interest expense	(199,598)	(184,911)	(409,807)	(361,068)
Interest income	6,041	5,663	14,889	8,481
Minority interest	(6,597)	(6,547)	(12,569)	(13,009)
Other income	12,312	16,215	14,563	30,578
	(187,842)	(169,580)	(392,924)	(335,018)
Income before income taxes	105,144	545,904	224,997	1,140,564
Provision for income taxes	104,829	227,642	169,679	475,614
Net income	$ 315	$ 318,262	$ 55,318	$ 664,950
Basic earnings per common share	$ --	$ 0.52	$ 0.09	$ 1.10
Diluted earnings per common share	$ --	$ 0.50	$ 0.09	$ 1.05
Weighted average number of common shares outstanding	621,065	610,904	620,807	606,677
Weighted average number of common and dilutive potential common shares outstanding	622,860	646,716	621,998	644,719

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	EMPLOYEE STOCK BENEFIT TRUST
Balance, December 31, 1999	$ --	$6,273	$4,440,159	$662,746	$(563,086)	$(3,936)	$(3,890)	$(135,654)
Net income	--	--	--	55,318	--	--	--	--
Common stock issued upon exercise of stock options and warrants and grants of restricted stock (including tax benefit)	--	2	782	--	--	(685)	1,847	--
Earned compensation related to restricted stock	--	--	--	--	--	747	--	--
Common stock issued (purchased) in connection with litigation settlements	--	11	17,141	--	--	--	(1,165)	--
Adjustment of employee stock benefit trust to market value	--	--	14,306	--	--	--	--	(14,306)
Adjustment for minimum pension liability, net of taxes	--	--	--	--	56,450	--	--	--
Cumulative translation adjustment of foreign currency statements including effects of divestitures	--	--	--	--	183,231	--	--	--
Other	--	5	13,673	--	--	--	--	--
Balance, June 30, 2000	$ --	$6,291	$4,486,061	$718,064	$(323,405)	$(3,874)	$(3,208)	$(149,960)

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

WASTE MANAGEMENT, INC.

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

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
Cash flows from operating activities:		
Net income	$ 55,318	$ 664,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	28,411	19,316
Depreciation and amortization	712,717	749,765
Deferred income tax provision	79,790	247,007
Net gain on disposal of assets	(5,704)	(17,532)
Minority interest in subsidiaries	12,569	13,009
Effect of asset impairments and unusual items	308,682	--
Change in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable and other receivables	210,522	(324,920)
Prepaid expenses and other current assets	(19,658)	(18,567)
Other assets	7,042	32,335
Accounts payable and accrued liabilities	(259,616)	(351,124)
Deferred revenues and other liabilities	(25,681)	(271,101)
Other, net	(1,996)	9,177
Net cash provided by operating activities	1,102,396	752,315
Cash flows from investing activities:		
Short-term investments	53,733	(6,273)
Acquisitions of businesses, net of cash acquired	(169,320)	(644,515)
Capital expenditures	(563,882)	(614,085)
Proceeds from divestitures of businesses and other asset sales	1,082,931	546,694
Other, net	(17,939)	11,649
Net cash provided by (used in) investing activities	385,523	(706,530)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	73,570	1,814,647
Principal payments on long-term debt	(1,636,569)	(2,033,281)
Proceeds from exercise of common stock options and warrants	1,222	165,110
Net cash used in financing activities	(1,561,777)	(53,524)
Effect of exchange rate changes on cash and cash equivalents	(3,954)	1,865
Decrease in cash and cash equivalents	(77,812)	(5,874)
Cash and cash equivalents at beginning of period	181,357	86,873
Cash and cash equivalents at end of period	$ 103,545	$ 80,999

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

WASTE MANAGEMENT, INC.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Net income	$ 315	$318,262	$ 55,318	$ 664,950
Other comprehensive income (loss):				
Foreign currency translation adjustment	262,578	(42,471)	183,231	(104,016)
Minimum pension liability adjustment, net of taxes of $5,371 and $35,939 for the three and six months ended June 30, 2000	8,437	--	56,450	--
Other comprehensive income (loss)	271,015	(42,471)	239,681	(104,016)
Comprehensive income	$271,330	$275,791	$294,999	$ 560,934

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 first and second quarters of 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 June 30, 2000 and for the three and six months then ended to allow its independent accountants to complete their reviews of the interim financial information for those periods. Management believes that its processes have improved considerably and will continue to improve throughout 2000, allowing it to further 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 previously reported amounts in the financial statements in order to conform to the current period presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

1. LONG-TERM DEBT

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

	JUNE 30, 2000	DECEMBER 31, 1999
Bank credit facilities	$ 1,535,000	$ 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	6,554,640	6,749,785
4% Convertible subordinated notes due 2002	535,275	535,275
5.75% Convertible subordinated notes due 2005	30,827	426,726
Tax-exempt and project bonds, principal payable in periodic installments, maturing through 2021, fixed and variable interest rates ranging from 4.85% to 9.25% at June 30, 2000	1,198,634	1,234,668
Installment loans, notes payable, and other, interest to 14%, maturing through 2015	263,340	279,735
	10,117,716	11,498,088
Less current maturities	2,063,106	3,098,742
	$ 8,054,610	$ 8,399,346

At June 30, 2000, the Company had a $2.6 billion syndicated loan facility (the "Syndicated Facility") and a $1.8 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 and Credit Facility are 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 June 30, 2000, the Company had borrowings of approximately $1.2 billion under the Syndicated Facility at an average interest rate of 7.6%, and had borrowings of $281.0 million under the Credit Facility at 7.8% interest. The facility fees were 0.20% and 0.25% per annum under the Syndicated Facility and Credit Facility, respectively, at June 30, 2000. The Company had issued letters of credit of approximately $1.3 billion in aggregate under the Syndicated Facility and Credit Facility leaving unused and available aggregate credit capacity of approximately $1.6 billion at June 30, 2000.

The Company obtained amendments to the Syndicated Facility and Credit Facility agreements for the quarter ended March 31, 2000. On July 10, 2000, the Company renewed its Syndicated Facility in the amount of $2 billion for an additional one-year period and renewed its Credit Facility in the amount of $1.7 billion with a maturity date of August 7, 2002. Certain financial covenants to the Syndicated Facility and the Credit Facility were also amended. Terms and conditions contained in the new and amended agreements are substantially the same as prior agreements.

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 is required to utilize the first $1.5 billion of net proceeds from divestitures to repay indebtedness and 50% of the net proceeds greater than $1.5 billion of proceeds but less than $2.5 billion to repay the indebtedness, subject to certain requirements to repay the Company's Eurocurrency facilities with proceeds from WM International divestitures. All net proceeds from the divestiture of the Company's WM International operations were required to

first be used to repay indebtedness under the Company's Eurocurrency facilities, all of which indebtedness has been repaid.

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 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 repurchased, for cash, $396.7 million of these notes that were outstanding at December 31, 1999. The Company did not repurchase any of these notes during the second quarter of 2000.

It is the Company's intention to refinance approximately $250 million of outstanding short-term borrowings through the use of existing committed long-term bank credit agreements in the event that alternative long-term refinancing is not arranged. Accordingly, these borrowings have been classified as long-term at June 30, 2000.

2. DIVESTITURES

On March 31, 2000, the Company completed the purchase of certain of the Canadian solid waste assets of Allied Waste Industries, Inc. ("Allied"). Under separate agreements, Allied contracted to purchase certain of the Company's domestic solid waste operations, including a total of ten landfill operations, 14 collection operations, four transfer stations and a landfill operating contract for approximately $191 million. On February 15, 2000, the Company completed the sale to Allied of seven similar collection operations, a landfill operation and a transfer station. On May 1, 2000, the Company completed the sale to Allied of six collection operations, five landfill operations and three transfer stations and on May 31, 2000 completed the sale to Allied of an additional two landfill operations. The final transactions were completed in August 2000. See Note 12.

In April 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. In May 2000, a wholly-owned subsidiary of the Company sold its waste services operations in Thailand to Modern Asia Environmental, Ltd. and its waste services operations in Italy to Emas S.p.A. and Italcogim S.p.A. In June 2000, the Company announced that its wholly-owned subsidiaries completed the sales of its waste service operations in Australia to SITA, the waste services sector of Suez Lyonnaise des Eaux ("SITA"), and its waste services operations in Germany to Cleanaway Deutscheland Holdings GmbH. Additionally, one of the Company's wholly-owned subsidiaries sold substantially all of its nuclear waste services operations located in the United States to GTS Duratek, Inc.

All divestiture activity relates to operations classified as held-for-sale. The following information summarizes the Company's divestiture activity through June 30, 2000 (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
THREE MONTHS ENDED:				
March 31, 2000				
Proceeds	$ 48,905	$ --	$ --	$ 48,905
Gain (loss) recorded during the period (a)	11,115	--	--	11,115
June 30, 2000				
Proceeds	$ 83,440	$ 952,569	$64,994	$1,101,003
Gain (loss) recorded during the period (a)	5,042	(147,492)	17,293	(125,157)

(a) Gain (loss) on sale of operations is included in asset impairments and unusual items. The loss on the sale of certain WM International operations includes amounts related to foreign currency translation which were not recognized until the divestiture of the respective international market was completed. Additionally, the Company has recorded held-for-sale impairment charges of approximately $450 million in periods prior to the second quarter of 2000 for operations that were divested during the second quarter of 2000 or are expected to be divested in future periods pursuant to its strategic plan.

3. INCOME TAXES

The differences in federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2000 and 1999 are primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, non-deductible held-for-sale impairment charges associated with certain foreign businesses, and non-deductible losses on the divestiture of foreign assets that closed during the respective periods.

4. EARNINGS PER SHARE

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Number of common shares outstanding at end of period	621,094	617,181	621,094	617,181
Effect of using weighted average common shares outstanding	(29)	(6,277)	(287)	(10,504)
Weighted average number of common shares outstanding	621,065	610,904	620,807	606,677
Dilutive effect of common stock options and warrants	1,795	9,847	1,191	9,906
Diluted effect of convertible subordinated notes and debentures	--	25,965	--	28,136
Weighted average number of common and dilutive potential common shares outstanding	622,860	646,716	621,998	644,719

For the three and six months ended June 30, 1999, interest (net of taxes) of $6.3 million and $13.5 million, respectively, was added to net income for the diluted earnings per share calculation. For the three and six months ended June 30, 2000, the effects of the Company's convertible subordinated notes and debentures are excluded from the dilutive earnings per share calculation since the inclusion of such items would be antidilutive.

At June 30, 2000, there were approximately 55.5 million shares of common stock potentially issuable with respect to stock options, warrants and convertible debt, which could dilute basic earnings per share in the future.

5. 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	183,231	56,450	239,681
Balance, June 30, 2000	$(246,849)	$ (76,556)	$(323,405)

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 is primarily due to the settlement by the Plan of obligations to certain participants that occurred during the three and six months ended June 30, 2000. The charge, which is included in asset impairments and unusual items, was $13.8 million and $92.4 million for the three and six months ended June 30, 2000, respectively. 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 during the third quarter of 2000, at which time the final settlement expense (currently estimated to be approximately $130 million) 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 in the third quarter 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 in each country, the foreign currency translation losses that are included in accumulated other comprehensive income (loss) are recognized in the Company's statement of operations (decreasing any gain, or increasing any loss) with an offsetting adjustment to the accumulated foreign currency translation. The accumulated foreign currency translation loss for the Company's remaining WM International operations which are held-for-sale was $138.4 million and $353.1 million as of June 30, 2000 and December 31, 1999, respectively. See Notes 2 and 12 for further discussion of the Company's divestiture activity.

6. 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 that 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 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 June 30, 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 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 June 30, 2000 and 2% at December 31, 1999) until expected time of payment and then discounted to present value (6.5% at June 30, 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.

7. 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 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 6 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 quarterly and year-end reports made by the Company. The Company has resolved many of these actions and claims, as discussed in earlier filings. In July 2000, the Company resolved an action alleging breach of warranty and fraud, among other things, arising out of a transaction worth in excess of $11 million at its closing in 1995.

The following actions with respect to WM Holdings, however, are still 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 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 2000, the court of appeals upheld this certification order. Also in March 2000, 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 class, as currently constituted, consists of twenty-six transactions involving shares worth, in aggregate, approximately $132 million as valued at the time of the respective deals. The extent of damages in this class action has not yet been determined.

In March 2000, a group of companies that sold their assets to WM Holdings in exchange for common stock then valued at over $200 million pursuant to an asset purchase agreement (and who otherwise would have been included in the above class, as currently defined), brought a separate action against the Company for breach of contract and fraud, among other things. The Company and this seller group currently are litigating the question of whether their dispute should be submitted to arbitration for resolution. The extent of damages in the underlying action 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. This action is in its early stages and the extent of possible damages, if any, has not yet been determined.

A consolidated derivative action has also been filed in Delaware Chancery Court, nominally on behalf of the Company, against certain former officers and directors of WM Holdings and certain directors of the Company. The derivative plaintiffs seek, among other things, those monies paid by the Company to resolve those claims arising out of WM Holdings' restatement of earnings in February 1998 as well as a declaration that the Company does not have to pay retirement benefits to certain former officers of WM Holdings.

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. Additionally, a third former officer brought a similar action, which was subsequently dismissed without prejudice in March 2000. The Company is engaged in discussions to settle the disputes between it and each of these former officers.

In addition to the actions with respect to WM Holdings, the following actions with respect to the Company or its other subsidiaries are pending.

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 current and former 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 current and former 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. On May 8, 2000, the United States District Court for the Southern District of Texas entered an order appointing the Connecticut Retirement Plan and Trust Funds as lead plaintiff in the consolidated cases and appointing the law firm of Goodkind Labaton Rudoff & Suchrow LLP as lead plaintiff's counsel.

The lead plaintiff filed its Amended Consolidated Class Action Complaint (the "Complaint") on July 14, 2000. The Complaint pleads claims on behalf of a putative class consisting of all purchasers of Company securities (including common stock, debentures and call options), and all sellers of put options, from June 11, 1998 through November 9, 1999. The Complaint also pleads additional claims on behalf of two putative subclasses: (i) the "Merger Subclass," consisting of all persons who exchanged WM Holdings shares for the Company's stock when WM Holdings and the Company merged, and (ii) the "Eastern Merger Subclass," consisting of all persons who exchanged Eastern Environmental Services, Inc. ("Eastern") stock for the Company's stock when Eastern and the Company merged on December 31, 1998 (the "Eastern Merger"). Among other things, the plaintiffs allege that the Company and certain of its current and former officers and directors (i) made misrepresentations in the registration statement and prospectus filed with the SEC in connection with the WM Holdings Merger, (ii) made knowingly false earnings projections for the three months ended June 30, 1999 and (iii) 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 and (iv) made separate and distinct misrepresentations about the Company's operations and finances on and after July 29, 1999, culminating in the Company's taking a pre-tax charge of $1.76 billion in the third quarter of 1999. The plaintiffs also claim that certain of the Company's current and former 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, cannot yet be determined.

On June 29, 2000, a putative class action was filed against the Company in Delaware state court by a class of former shareholders of Eastern who exchanged their Eastern shares for the Company's shares in the Eastern Merger. The plaintiffs allege that the Company stock they received in exchange for their Eastern shares was overvalued for the reasons alleged in the consolidated class actions in Texas. The claims and putative class members in this case fall within the scope of the consolidated class actions in Texas. The case is at an early stage, and the extent of possible damages, if any, cannot yet be determined.

The Company has been sued in several lawsuits, and two arbitration actions have been initiated, by individuals who received common stock in the sales of their businesses to the Company or to a company later acquired by the Company. The first of these actions, filed in state court in Oregon in November 1999, was resolved in June 2000. The two arbitrations that have been initiated both relate to the sale of businesses to 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. Two other lawsuits were filed in June 2000, one in state court in California and another in state court in Virginia, both also relating to the sales of businesses to the Company. With the exception of the Oregon case and one of the arbitration cases, which have been resolved, all of these matters are in an early stage and the extent of possible damages, if any, cannot yet be determined.

In addition, three of the Company's shareholders have filed purported derivative lawsuits against certain current and former 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 current and former officers and directors, and alleged self-dealing by certain of the Company's current and former 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 Eastern Merger. The Company alleged, among other things, that the defendants usurped Eastern corporate opportunities for personal gain and otherwise mismanaged certain affairs of Eastern. Mr. Paolino and others alleged 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. The parties to these suits have withdrawn their respective complaints and are engaging in discussions to resolve these issues.

Several related shareholders have filed a lawsuit in state court in Texas against the Company and three of its former officers. 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. The case is in an early stage and the extent of damages, if any, cannot yet be determined.

In addition, the SEC 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. On June 21, 2000 the Company consented, without admitting or denying the findings, to the SEC's entry of an administrative Cease and Desist Order, finding that the Company had violated certain of the antifraud, books and records, and internal control provisions of the federal securities laws in connection with the July 6, 1999 announcement. The Order did not impose any fines or monetary penalties. The SEC noted in the Order that its inquiry was ongoing as to other parties.

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 and other matters alleged in the various complaints. As part of this investigation, the Company's Board of Directors authorized its Special Committee I to conduct a full investigation and evaluation of all matters relating to: (i) the reporting of the Company's first and second quarter 1999 operating results; (ii) the sales of the Company's stock by certain current and former corporate officials; and (iii) the allegations made in pending litigation respecting these matters and to report its findings and recommendations to those members of the Board of Directors it finds are sufficiently disinterested to act upon its findings and recommendations. Roderick M. Hills, a former chairman of the SEC and the former chairman of the Company's Audit Committee served as Chairman of the Special Committee I until he retired from the Board of Directors in May 2000 in accordance with the retirement provisions contained in the Company's Corporate Governance Guidelines. John C. Pope, current Chairman of the Company's Audit Committee, has succeeded Mr. Hills as Chairman of the Special Committee I.

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, attorneys filed a lawsuit on behalf of a putative class of plan participants against the Company, the Waste Management, Inc. Pension Plan, and various individual defendants, alleging violations of the Employee Retirement Income Security Act of 1974 ("ERISA") with respect to the termination of the Plan. Since the initial filing of the case, the plaintiffs have voluntarily dismissed certain counts and the Company has filed a Motion to Dismiss with respect to the remaining claims.

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 June 30, 2000, there were five 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 June 30, 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.

8. 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. As discussed in Note 2, pursuant to the Company's strategic initiative, the Company has divested or is actively marketing to sell its WM International operations. 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, 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 have been divested or are being actively marketed and considered to be held for sale.

Summarized financial information concerning the Company's reportable segments as of June 30, 2000 is as follows (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	CORPORATE FUNCTIONS(A)	TOTAL
THREE MONTHS ENDED:					
June 30, 2000					
Net operating revenues(b).....	$2,911,743	$224,148	$129,820	$ --	$3,265,711
Earnings before interest and taxes (EBIT)(c),(d),(e),(f).....	608,946	42,816	19,593	(161,925)	509,430
June 30, 1999					
Net operating revenues(b).....	$2,686,852	$386,713	$251,210	$ --	$3,324,775
Earnings before interest and taxes (EBIT)(c),(d),(f).....	736,615	41,027	21,788	(1,985)	797,445
SIX MONTHS ENDED:					
June 30, 2000					
Net operating revenues(b).....	$5,621,699	$625,632	$235,689	$ --	$6,483,020
Earnings before interest and taxes (EBIT)(c),(d),(e),(f).....	1,139,044	112,871	31,274	(356,586)	926,603
June 30, 1999					
Net operating revenues(b).....	$5,198,168	$757,804	$439,438	$ --	$6,395,410
Earnings before interest and taxes (EBIT)(c),(d),(f).....	1,421,068	76,018	35,213	42,728	1,575,027

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(a) Corporate functions include the corporate treasury function (except for limited amounts of locally negotiated and managed project debt), administration of corporate tax function, the corporate insurance function, management of closed landfill and related insurance recovery functions, other typical administrative functions and certain inter-segment transactions.

(b) Non-solid waste revenues are net of inter-segment revenue with NASW of $11.6 million and $15.8 million, for the three and six months ended June 30, 2000, respectively and $19.2 million and $32.5 million for the three and six months ended June 30, 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.

(e) As discussed in Note 9, the Company has classified certain operations as held-for-sale. For operations classified as held-for-sale at the beginning of each quarter, the Company suspends depreciation on fixed assets. Had the Company not classified any operations as held-for-sale, depreciation expense would have been greater by $32.1 million and $83.1 million for the three and six months ended June 30, 2000, respectively. The suspension of depreciation related to the Company's WM International operations was $20.9 million and $58.3 million for the three and six months ended June 30, 2000, respectively.

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
EBIT, as reported above(a).....	$ 509,430	$ 797,445	$ 926,603	$1,575,027
Less:				
Merger and acquisition related costs.....	--	62,211	--	79,695
Asset impairments and unusual items.....	216,444	19,750	308,682	19,750
Income from operations.....	292,986	715,484	617,921	1,475,582
Interest expense.....	(199,598)	(184,911)	(409,807)	(361,068)
Interest income.....	6,041	5,663	14,889	8,481
Minority interest.....	(6,597)	(6,547)	(12,569)	(13,009)
Other income, net.....	12,312	16,215	14,563	30,578
Income before income taxes.....	105,144	545,904	224,997	1,140,564
Provision for income taxes.....	104,829	227,642	169,679	475,614
Net income.....	$ 315	$ 318,262	$ 55,318	$ 664,950

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

9. 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. Note 2 to these condensed consolidated financial statements contained elsewhere herein discusses operations which have been divested in the year 2000. 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 for the three and six months ended June 30, 2000 to asset impairments and unusual items of approximately $77.6 million and $102.4 million, respectively, related primarily to the Company's WM International operations, which are held-for-sale, that have a carrying value greater than management's best estimate of anticipated proceeds as of June 30, 2000. In determining fair value, the Company considered, among other things, the range of preliminary purchase prices being discussed with potential 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 June 30, 2000, is as follows (in thousands):

	NORTH AMERICAN SOLID WASTE	WM INTERNATIONAL	NON-SOLID WASTE	TOTAL
THREE MONTHS ENDED:				
June 30, 2000				
Operating revenues	$116,545	$224,148	$30,258	$ 370,951
Earnings before interest and taxes(a),(b)	9,751	42,816	5,803	58,370
June 30, 1999				
Operating revenues	$111,114	$386,713	$26,817	$ 524,644
Earnings before interest and taxes(a)	5,968	41,027	6,593	53,588
SIX MONTHS ENDED:				
June 30, 2000				
Operating revenues	$226,471	$625,632	$57,438	$ 909,541
Earnings before interest and taxes(a),(b)	18,525	112,871	10,077	141,473
June 30, 1999				
Operating revenues	$212,975	$757,804	$49,712	$1,020,491
Earnings before interest and taxes(a)	9,077	76,018	10,802	95,897

- ---

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

(b) For operations classified as held-for-sale at the beginning of each quarter, the Company suspends depreciation on fixed assets. Had the Company not classified any operations as held-for-sale, depreciation expense would have been greater by $32.1 million and $83.1 million for the three and six months ended June 30, 2000, respectively. The suspension of depreciation related to the Company's WM International operations was $20.9 million and $58.3 million for the three and six months ended June 30, 2000, respectively.

In its condensed consolidated balance sheets, 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 June 30, 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 June 30, 2000:				
Accounts receivable, net	$ 44,399	$ 178,939	$ 15,102	$ 238,440
Other current assets	7,847	99,075	3,512	110,434
Property and equipment and other non-current assets	559,398	1,141,175	51,054	1,751,627
Current maturities of long-term debt	(2,348)	(6,869)	--	(9,217)
Other current liabilities	(23,916)	(282,369)	(7,720)	(314,005)
Long-term debt, less current maturities	(50,577)	(12,928)	--	(63,505)
Other noncurrent liabilities	(15,905)	(129,909)	(901)	(146,715)
Minority interest	--	(57,016)	(5,700)	(62,716)
Net operations held for sale	$518,898	$ 930,098	$ 55,347	$1,504,343
Current assets:				
Operations held for sale	$566,817	$1,419,189	$ 69,668	$2,055,674
Long-term assets:				
Operations held for sale (included in other assets)	44,827	--	--	44,827
Current liabilities:				
Operations held for sale	(92,746)	(489,091)	(14,321)	(596,158)
Net operations held for sale	$518,898	$ 930,098	$ 55,347	$1,504,343

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, 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:				
Receivables, 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

10. 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 and SFAS No. 138, is effective for the Company in its first fiscal quarter of 2001. Management is currently assessing the impact that the adoption of these standards will have on the Company's consolidated financial statements.

11. 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 June 30, 2000 and the condensed consolidated balance sheet as of December 31, 1999, the unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2000 and 1999, along with the related unaudited statements of cash flows for the six months ended June 30, 2000 and 1999, have been provided below (in thousands).

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONSOLIDATING BALANCE SHEET
JUNE 30, 2000
(UNAUDITED)

ASSETS

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Current assets:					
Cash and cash equivalents	$ 58,109	$ (2,715)	$ 48,151	$ --	$ 103,545
Other current assets	--	36,604	4,236,012	--	4,272,616
	58,109	33,889	4,284,163	--	4,376,161
Property and equipment, net	--	--	10,123,759	--	10,123,759
Intercompany and investment in subsidiaries	10,723,697	5,601,481	(11,663,093)	(4,662,085)	--
Other assets	11,195	8,727	6,136,724	--	6,156,646
Total assets	$10,793,001	$5,644,097	$ 8,881,553	$ (4,662,085)	$20,656,566
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 1,238,893	$ 650,000	$ 174,213	$ --	$ 2,063,106
Accounts payable and other accrued liabilities	99,109	319,973	2,881,559	--	3,300,641
	1,338,002	969,973	3,055,772	--	5,363,747
Long-term debt, less current maturities	4,251,665	2,515,183	1,287,762	--	8,054,610
Other liabilities	--	--	2,498,938	--	2,498,938
Total liabilities	5,589,667	3,485,156	6,842,472	--	15,917,295
Minority interest in subsidiaries	--	--	9,302	--	9,302
Stockholders' equity	5,203,334	2,158,941	2,029,779	(4,662,085)	4,729,969
Total liabilities and stockholders' equity	$10,793,001	$5,644,097	$ 8,881,553	$ (4,662,085)	$20,656,566

WASTE MANAGEMENT, INC.

NOTES TO 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	$11,428,161	$5,990,624	$ 9,430,087	$(4,167,448)	$22,681,424
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	$11,428,161	$5,990,624	$ 9,430,087	$(4,167,448)	$22,681,424

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2000
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Operating revenues	$ --	$ --	$3,265,711	$ --	$3,265,711
Costs and expenses	--	--	2,972,725	--	2,972,725
Income from operations	--	--	292,986	--	292,986
Other income (expense):					
Interest income (expense), net	(120,492)	(58,596)	(14,469)	--	(193,557)
Equity in subsidiaries, net of taxes	75,622	112,244	--	(187,866)	--
Minority interest	--	--	(6,597)	--	(6,597)
Other, net	--	--	12,312	--	12,312
	(44,870)	53,648	284,232	(187,866)	105,144
Provision for (benefit from) income taxes	(45,185)	(21,974)	171,988	--	104,829
Net income	$ 315	$ 75,622	$ 112,244	$(187,866)	$ 315

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 1999
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Operating revenues	$ --	$ --	$3,324,775	$ --	$3,324,775
Costs and expenses	--	--	2,609,291	--	2,609,291
Income from operations	--	--	715,484	--	715,484
Other income (expense):					
Interest income (expense), net	(89,061)	(67,031)	(23,156)	--	(179,248)
Equity in subsidiaries, net of taxes	373,925	415,819	--	(789,744)	--
Minority interest	--	--	(6,547)	--	(6,547)
Other, net	--	--	16,215	--	16,215
	284,864	348,788	701,996	(789,744)	545,904
Provision for (benefit from) income taxes	(33,398)	(25,137)	286,177	--	227,642
Net income	$318,262	$373,925	$ 415,819	$(789,744)	$ 318,262

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2000
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Operating revenues	$ --	$ --	$6,483,020	$ --	$6,483,020
Costs and expenses	--	--	5,865,099	--	5,865,099
Income from operations	--	--	617,921	--	617,921
Other income (expense):					
Interest income (expense), net	(246,963)	(120,475)	(27,480)	--	(394,918)
Equity in subsidiaries, net of taxes	209,670	284,967	--	(494,637)	--
Minority interest	--	--	(12,569)	--	(12,569)
Other, net	--	--	14,563	--	14,563
	(37,293)	164,492	592,435	(494,637)	224,997
Provision for (benefit from) income taxes	(92,611)	(45,178)	307,468	--	169,679
Net income	$ 55,318	$ 209,670	$ 284,967	$ (494,637)	$ 55,318

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1999
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Operating revenues	$ --	$ --	$6,395,410	$ --	$6,395,410
Costs and expenses	--	--	4,919,828	--	4,919,828
Income from operations	--	--	1,475,582	--	1,475,582
Other income (expense):					
Interest income (expense), net	(174,144)	(139,194)	(39,249)	--	(352,587)
Equity in subsidiaries, net of taxes	773,790	860,786	--	(1,634,576)	--
Minority interest	--	--	(13,009)	--	(13,009)
Other, net	--	--	30,578	--	30,578
	599,646	721,592	1,453,902	(1,634,576)	1,140,564
Provision for (benefit from) income taxes	(65,304)	(52,198)	593,116	--	475,614
Net income	$ 664,950	$ 773,790	$ 860,786	$(1,634,576)	$ 664,950

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2000
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Cash flows from operating activities:					
Net income	$ 55,318	$ 209,670	$ 284,967	$(494,637)	$ 55,318
Equity in earnings of subsidiaries, net of taxes	(209,670)	(284,967)	--	494,637	--
Other adjustments and charges	30,542	(3,150)	1,019,686	--	1,047,078
Net cash provided by (used in) operating activities	(123,810)	(78,447)	1,304,653	--	1,102,396
Cash flows from investing activities:					
Short-term investments	--	--	53,733	--	53,733
Acquisitions of businesses, net of cash acquired	--	--	(169,320)	--	(169,320)
Capital expenditures	--	--	(563,882)	--	(563,882)
Proceeds from sale of assets	--	--	1,082,931	--	1,082,931
Other, net	--	--	(17,939)	--	(17,939)
Net cash provided by investing activities	--	--	385,523	--	385,523
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	40,000	--	33,570	--	73,570
Principal payments on long-term debt	(776,899)	(593,710)	(265,960)	--	(1,636,569)
Proceeds from exercise of common stock options and warrants	1,222	--	--	--	1,222
(Increase) decrease in intercompany and investments, net	883,906	664,946	(1,548,852)	--	--
Net cash provided by (used in) financing activities	148,229	71,236	(1,781,242)	--	(1,561,777)
Effect of exchange rate changes on cash and cash equivalents	--	--	(3,954)	--	(3,954)
Increase (decrease) in cash and cash equivalents	24,419	(7,211)	(95,020)	--	(77,812)
Cash and cash equivalents at beginning of period	33,690	4,496	143,171	--	181,357
Cash and cash equivalents at end of period	$ 58,109	$ (2,715)	$ 48,151	$ --	$ 103,545

WASTE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 1999
(UNAUDITED)

	PARENT	GUARANTOR	NON-GUARANTOR	ELIMINATIONS	CONSOLIDATION
Cash flows from operating activities:					
Net income	$ 664,950	$ 773,790	$ 860,786	$(1,634,576)	$ 664,950
Equity in earnings of subsidiaries, net of taxes	(773,790)	(860,786)	--	1,634,576	--
Other adjustments and changes	5,761	7,768	73,836	--	87,365
Net cash provided by (used in) operating activities	(103,079)	(79,228)	934,622	--	752,315
Cash flows from investing activities:					
Short-term investments	--	--	(6,273)	--	(6,273)
Acquisitions of businesses, net of cash acquired	--	--	(644,515)	--	(644,515)
Capital expenditures	--	--	(614,085)	--	(614,085)
Proceeds from sale of assets	--	--	546,694	--	546,694
Other, net	--	--	11,649	--	11,649
Net cash used in investing activities	--	--	(706,530)	--	(706,530)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	1,806,510	--	8,137	--	1,814,647
Principal payments on long-term debt	(1,544,532)	(148,427)	(340,322)	--	(2,033,281)
Proceeds from exercise of common stock options and warrants	165,110	--	--	--	165,110
(Increase) decrease in amounts due to and from subsidiaries, net	(333,896)	274,517	59,379	--	--
Net cash provided by (used in) financing activities	93,192	126,090	(272,806)	--	(53,524)
Effect of exchange rate changes on cash and cash equivalents	--	--	1,865	--	1,865
Increase (decrease) in cash and cash equivalents	(9,887)	46,862	(42,849)	--	(5,874)
Cash and cash equivalents at beginning of period	27,726	(48,578)	107,725	--	86,873
Cash and cash equivalents at end of period	$ 17,839	$ (1,716)	$ 64,876	$ --	$ 80,999

12. SUBSEQUENT EVENTS

Effective July 1, 2000, WM Holdings terminated the Waste Management Benefits Stock Trust (the "Trust"). In 1994, the Trust, which was created by WM Holdings, purchased, in exchange for a promissory note, all of the outstanding treasury shares of WM Holdings to fund various company benefit plans. Pursuant to the WM Holdings Merger, all of the shares held by the Trust were converted into shares of the Company's common stock. In accordance with the termination of the Trust, the shares previously owned by it have been returned to the Company as payment for the outstanding amount of the promissory note. The 7,892,612 shares returned to the Company will be classified as treasury shares.

In July 2000, the Company announced that its wholly-owned subsidiary had signed and closed on an agreement to sell its waste services operations in Denmark, Slovakia and the Czech Republic to Marius Pedersen Holding A/S, a subsidiary of the Marius Pedersen Foundation, for approximately U.S. $120 million.

On August 4, 2000, the Company announced that it completed the final transaction of previously announced sales of certain of its U.S. solid waste assets to Allied for aggregate proceeds of approximately $191 million. The sales, some of which occurred in the first and second quarters of 2000, included 14 hauling companies, four transfer stations and ten landfills.

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. 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 has also engaged in hazardous waste management services throughout North America, as well as low-level and other radioactive waste services. However, certain of these operations have been divested prior to June 30, 2000 or are actively being marketed for sale pursuant to the Company's strategic plan.

Internationally, the Company has operated throughout Europe, the Pacific Rim, South America and other select markets. 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 has operated 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. However, as discussed above, the Company is in the process of divesting its international operations and as of June 30, 2000 has operations remaining only in the Pacific Rim, South America, Israel,

Denmark, Slovakia, the Czech Republic, Sweden and the United Kingdom. Additionally, agreements for the sales of certain of these operations have been reached subsequent to June 30, 2000. See Note 12 to the accompanying condensed consolidated financial statements.

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 primarily 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 31 landfill locations at June 30, 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 AND SIX MONTHS ENDED JUNE 30, 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 condensed consolidated statements of operations line items.

	PERIOD TO PERIOD CHANGE FOR THE THREE MONTHS ENDED JUNE 30, 2000 AND 1999		PERIOD TO PERIOD CHANGE FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND 1999	
STATEMENT OF OPERATIONS:				
Operating revenues	$ (59,064)	(1.8)%	$ 87,610	1.4%
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	112,950	6.2	407,883	11.7
General and administrative	147,126	49.4	365,199	63.7
Depreciation and amortization	(31,125)	(7.9)	(37,048)	(4.9)
Merger and acquisition related costs	(62,211)	(100.0)	(79,695)	(100.0)
Asset impairments and unusual items	196,694	995.9	288,932	1,462.9
	363,434	13.9	945,271	19.2
Income from operations	(422,498)	(59.1)	(857,661)	(58.1)
Other income (expense):				
Interest expense	(14,687)	(7.9)	(48,739)	(13.5)
Minority interest	(50)	(0.8)	440	3.4
Interest and other income, net	(3,525)	(16.1)	(9,607)	(24.6)
Income before income taxes	(440,760)	(80.7)	(915,567)	(80.3)
Provision for income taxes	(122,813)	(53.9)	(305,935)	(64.3)
Net income	$(317,947)	(99.9)%	$(609,632)	(91.7)%

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
STATEMENT OF OPERATIONS:				
Operating revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	59.7	55.2	60.2	54.7
General and administrative	13.6	9.0	14.5	9.0
Depreciation and amortization	11.1	11.8	11.0	11.7
Merger and acquisition related costs	--	1.9	--	1.2
Asset impairments and unusual items	6.6	0.6	4.8	0.3
	91.0	78.5	90.5	76.9
Income from operations	9.0	21.5	9.5	23.1
Other income (expense):				
Interest expense	(6.1)	(5.6)	(6.3)	(5.7)
Minority interest	(0.2)	(0.2)	(0.2)	(0.2)
Interest and other income, net	0.5	0.7	0.5	0.6
	(5.8)	(5.1)	(6.0)	(5.3)
Income before income taxes	3.2	16.4	3.5	17.8
Provision for income taxes	3.2	6.8	2.6	7.4
Net income	--%	9.6%	0.9%	10.4%

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 first and second quarters of 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 June 30, 2000 and for the three and six months then ended to allow its independent public accountants to complete their reviews of the interim financial information for those periods. Management believes that its processes have improved considerably and will continue to improve throughout 2000, allowing it to further 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 and as of June 30, 2000, had completed the divestiture of all international operations except those in the Pacific Rim, South America, Israel, Denmark, Slovakia, the Czech Republic, Sweden and the United Kingdom. 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 on June 9, 2000 that, in accordance with its strategic plan, one of its subsidiaries completed the sale of substantially 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. ("Vivendi"). The Company's retained interest of 49% is being accounted for using the equity method of accounting.

Operating Revenues

For the three months ended June 30, 2000, the Company's operating revenues decreased $59.1 million or 1.8% and for the six months ended June 30, 2000, increased $87.6 million or 1.4% as compared to the respective corresponding 1999 periods. The following table presents the operating revenues by reportable segment for the respective quarters (dollars in millions):

	THREE MONTHS ENDED JUNE 30,				SIX MONTHS ENDED JUNE 30,			
	2000		1999		2000		1999	
NASW	$2,911.7	89.1%	$2,686.9	80.8%	$5,621.6	86.7%	$5,198.2	81.3%
WM International	224.2	6.9	386.7	11.6	625.7	9.7	757.8	11.8
Non-solid waste	129.8	4.0	251.2	7.6	235.7	3.6	439.4	6.9
Operating revenues	$3,265.7	100.0%	$3,324.8	100.0%	$6,483.0	100.0%	$6,395.4	100.0%

The decrease in the Company's operating revenues for the three months ended June 30, 2000 as compared to the 1999 period is primarily due to decreases in operating revenues from its WM International and non-solid waste operations as a result of divestitures pursuant to the Company's strategic plan. The increase in the Company's operating revenues for the six months ended June 30, 2000 as compared to the 1999 period is primarily due to NASW operations, but was also offset in part as a result of divestiture activity. The following table presents the Company's mix of operating revenues from NASW for the respective periods (dollars in millions):

	THREE MONTHS ENDED JUNE 30,				SIX MONTHS ENDED JUNE 30,			
	2000		1999		2000		1999	
NASW:								
Collection	$1,963.8	56.9%	$1,895.6	59.1%	$3,825.4	57.6%	$3,684.9	59.8%
Disposal	870.5	25.2	841.6	26.3	1,674.3	25.2	1,600.2	26.0
Transfer	370.4	10.7	314.8	9.8	692.8	10.4	580.4	9.4
Recycling and other	248.0	7.2	153.4	4.8	452.5	6.8	296.4	4.8
	3,452.7	100.0%	3,205.4	100.0%	6,645.0	100.0%	6,161.9	100.0%
Intercompany	(541.0)		(518.5)		(1,023.4)		(963.7)	
Operating revenues	$2,911.7		$2,686.9		$5,621.6		$5,198.2	

The increase in operating revenues for the three and six months ended June 30, 2000 for NASW as compared to the prior year periods is primarily attributable to internal growth of comparable operations. The increase in operating revenues due to internal growth of NASW operations was $153.2 million and $287.6 million, or 5.7% and 5.6% for the three and six months ended June 30, 2000. Internal growth for the three and six months ended June 30, 2000 was comprised of 1.7% and 1.6% for pricing increases and 4.0% and 4.0% 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. Excluding the impact of price increases in the commodity markets for recyclable materials, and the fuel surcharge implemented by the Company, the Company experienced a negative base price change of 0.9% in the three months ended June 30, 2000, as compared to the prior year period. The negative base price change in the second quarter of 2000 was due in part to the fact that the Company implemented large price increases in the second quarter of 1999 that were effectively reduced in the second half of 1999 to their previous levels. Additionally, the Company's NASW operating revenues increased $96.4 million and $176.1 million for the three and six months ended June 30, 2000, respectively, due to acquisitions primarily of collection operations. Offsetting the increase in operating revenues was a decline in

operating revenues of $24.8 million and $43.3 for the three and six months ended June 30, 2000, associated with divestitures of NASW businesses.

The operating revenues from the Company's WM International operations decreased $162.5 million, or 42.0%, and $132.1 million, or 17.4%, for the three and six months ended June 30, 2000, as compared to the prior year. This decrease in operating revenues is principally due to divestitures of certain WM International operations with operating revenues of approximately $172.2 million and $173.3 million for the three and six months ended June 30, 2000, respectively. Operating revenues from the Company's WM International operations were also negatively impacted by fluctuations in foreign currency of $17.0 million and $54.3 million for the three and six months ended June 30, 2000, respectively, as compared to the prior year periods. Offsetting these decreases in operating revenues in the Company's WM International operations was internal growth of comparable operations of 4.4% and 2.2% for the three and six months ended June 30, 2000, respectively.

Operating revenues for non-solid waste services decreased for the three and six months ended June 30, 2000 as compared to the prior year period due to the June 1999 sale of a 51% interest in certain non-solid waste operations to Vivendi, as previously discussed herein. This decrease was partially offset by the increase in operating revenues associated with a geosynthetic manufacturing and installation service company acquired July 1999. The Company expects decreasing operating revenues from its non-solid waste operations in future periods as the Company has sold or has entered into agreements for the sale of its non-solid waste operations pursuant to its strategic plan. Exclusive of acquisitions and divestitures, the Company's non-solid waste operating revenues for the three and six months ended June 30, 2000 are substantially consistent with the corresponding prior year periods.

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

Operating costs and expenses increased $113.0 million or 6.2% and $407.9 million or 11.7% for the three and six months ended June 30, 2000, as compared to the prior year periods. As a percentage of operating revenues, operating costs and expenses were 59.7% and 60.2% and 55.2% and 54.7% for the three and six months ended June 30, 2000 and 1999, respectively. The Company realized certain short-term cost reductions through the first half 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 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 half 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 1.7% and 1.0% for the three and six months ended June 30, 1999. There were no such adjustments in the first six months of 2000.

General and Administrative

General and administrative expenses increased $147.1 million or 49.4% and $365.2 million or 63.7% for the three and six months ended June 30, 2000 as compared to the prior year periods. As a percentage of

operating revenues, the Company's general and administrative expenses were 13.6% and 14.5% and 9.0% and 9.0% for the three and six months ended June 30, 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 half 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 half 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 $31.1 million or 7.9% and $37.0 million or 4.9% for the three and six months ended June 30, 2000 as compared to prior year periods. As a percentage of operating revenues, depreciation and amortization expense was 11.1% and 11.0% and 11.8% and 11.7% for the three and six months ended June 30, 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 for the three and six months ended June 30, 2000 for these held-for-sale operations was $32.1 million and $83.1 million, or 1.0% and 1.3% of operating revenues, respectively. As compared to the prior year periods, depreciation and amortization expense for the three and six months ended June 30, 2000 was also reduced by divestitures of operations during the second quarter of 2000 pursuant to its strategic plan. However, these decreases in depreciation and amortization expense were offset partially by increased landfill airspace amortization in the three and six months ended June 30, 2000 from an increase in disposal volumes at its landfills. Additionally, the Company experienced higher airspace amortization rates in the current year periods, as compared to the prior year periods, due to the more stringent set of criteria for evaluating the probability of obtaining an expansion to landfill airspace, as discussed above, which was effective as of the third quarter of 1999.

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 half 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 $13.8 million and $92.4 million for the three and six months ended June 30, 2000.

Additionally, the Company recorded a charge to asset impairments and unusual items of approximately $125.1 million and $114.0 million for the three and six months ended June 30, 2000 related to net gains and losses on operations divested during the respective periods. Furthermore, the Company recorded charges of approximately $77.6 million and $102.4 million for the three and six months ended June 30, 2000, respectively, for operations held-for-sale that have a carrying value greater than management's best current estimate of anticipated proceeds. The Company monitors operations held-for-sale on an ongoing basis to identify potential further impairments as they arise.

In connection with merger transactions that the Company completed in 1998, the Company incurred $62.2 million and $79.7 million for the three and six months ended June 30, 1999. Such costs included transitional wages and other reorganizational costs. Offsetting these costs was a cumulative 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 $293.0 million and $617.9 million for the three and six months ended June 30, 2000, respectively, as compared to $715.5 million and $1.5 billion for the corresponding periods of 1999.

Other Income and Expenses

Other income and expenses consists of interest expense, interest income, other income 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 second quarter of 1999. Furthermore, the Company has experienced a decrease in the amount of interest it has capitalized from $11.3 million and $23.3 million in the three and six months ended June 30, 1999, to $5.3 million and $9.3 million during three and six months ended June 30, 2000.

Provision for Income Taxes

The Company recorded a provision for income taxes of $104.8 million and $169.7 million for the three and six months ended June 30, 2000, respectively, and $227.6 million and $475.6 million for the corresponding periods of 1999. The difference between the federal income taxes at the federal statutory rate and the provision for income taxes for the three and six months ended June 30, 2000 is primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, non-deductible held-for-sale impairment charges associated with certain foreign businesses, and non-deductible losses on the divestiture of foreign assets that closed during the respective periods. Excluding non-deductible held-for-sale impairment charges associated with certain foreign businesses, and non-deductible losses on the divestiture of foreign assets that closed during the respective periods, the Company recorded a tax provision of 41.7% of pre-tax income for the three and six months ended June 30, 2000.

Net Income

For the three and six months ended June 30, 2000, net income was $0.3 million and $55.3 million, respectively, as compared to $318.3 million and $665.0 million for the respective prior periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates in an industry that requires a high level of capital investment. The Company's capital requirements primarily stem from (i) its working capital needs for its ongoing operations, (ii) capital expenditures for 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 to the Company 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 through 2000, will be utilized for debt repayment, repurchase of shares and selected tuck-in acquisitions. Although the Company has unused and available credit capacity under its domestic bank facilities of $1.6 billion at June 30, 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 loan facility (the "Syndicated Facility"), senior revolving credit facility (the "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 July 20, 2000, the Company has sold or announced agreements for sales of assets pursuant to its strategic plan from its WM International, non-solid waste and NASW operations with proceeds totaling approximately $2.0 billion.

The Company obtained amendments to the Syndicated Facility and Credit Facility agreements for the quarter ended March 31, 2000. On July 10, 2000, the Company renewed its Syndicated Facility in the amount of $2 billion for an additional one-year period and renewed its Credit Facility in the amount of $1.7 billion with a maturity date of August 7, 2002. Certain financial covenants to the Syndicated Facility and the Credit Facility were also amended. Terms and conditions contained in the new and amended agreements are substantially the same as prior agreements.

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 WM International, domestic non-core assets and up to 10% of its NASW operations. Specifically, the Company is required to utilize the first $1.5 billion of net proceeds from divestitures to repay indebtedness and 50% of the net proceeds greater than $1.5 billion but less than $2.5 billion to repay the indebtedness, subject to certain requirements to repay the Company's Eurocurrency facilities with proceeds from WM International divestitures. All net proceeds from the divestiture of the Company's WM International operations were required to first be used to repay indebtedness under the Company's Eurocurrency facilities, all of which indebtedness has been repaid.

As of June 30, 2000, the Company had a working capital deficit of $987.6 million (a ratio of current assets to current liabilities of 0.82:1) and a cash balance of $103.5 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 six months ended June 30, 2000, cash used to acquire businesses of $169.3 million, capital expenditures of $563.9 million and net debt reductions of approximately $1.6 billion were primarily financed with cash flows from operating activities of $1.1 billion and proceeds from the sale of assets of $1.1 billion. Favorably impacting cash flows from operations for the six months ended June 30, 2000 was a tax refund of approximately $200 million and improvements in the Company's accounts receivable average days sales outstanding. For the six months ended June 30, 1999, cash used to acquire businesses of $644.5 million, capital expenditures of $614.1 million and net debt reductions of approximately $218.6 million were primarily financed with cash flows from operating activities of $752.3 million and proceeds from the sale of assets of $546.7 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. It is the Company's intention to refinance approximately $250 million of outstanding short-term borrowings through the use of existing committed long-term bank credit agreements in the event that alternative long-term refinancing is not arranged. Accordingly, these borrowings have been classified as long-term at June 30, 2000.

The Company expects to settle its remaining obligations in conjunction with the termination of the Plan during the third quarter of 2000 at which time the Company expects to make payments of approximately $185 million to the Plan's trust.

As a result of financial difficulties experienced during the second quarter of 2000 by one of the Company's surety bond providers, it became necessary for the Company to obtain replacement bonding for this surety's financial assurance bonds. Arrangements for replacement financial assurance have been substantially completed and the Company has available sufficient surety capacity to meet its ongoing operating requirements.

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.

DIVESTITURES

In April 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. During May and June 2000, the Company announced that its wholly-owned subsidiaries had completed previously announced transactions to sell waste services operations in Italy, Australia and Germany, as well as substantially all of its nuclear waste services operations in the United States. In May 2000, one of the Company's wholly-owned subsidiaries sold its waste services operations in Thailand to Modern Asia Environmental Ltd. In June 2000, the Company also announced that one of its wholly-owned subsidiaries had reached an agreement to sell its waste services operations in the United Kingdom to Severn Trent Plc for approximately U.S. $570 million. The sale, which is subject to the approval of regulatory authorities and other customary conditions, is expected to be completed in the third quarter of 2000. In July 2000, the Company announced that a wholly-owned subsidiary had signed and closed on an agreement to sell its waste services operations in Denmark, Slovakia and the Czech Republic to Marius Pedersen Holding A/S, a subsidiary of the Marius Pedersen Foundation, for approximately U.S. $120 million. On August 4, 2000, the Company announced that it completed the final transaction of previously announced sales of certain of its U.S. solid waste assets to Allied for aggregate proceeds of approximately $191 million. The sales, some of which occurred in the first and second quarters of 2000, included 14 hauling companies, four transfer stations and ten landfills.

RECENT DEVELOPMENTS

On June 21, 2000, the Company announced that it agreed to a settlement with the United States Securities and Exchange Commission (the "SEC") related to the Company's disclosures of information about expected earnings and revenues for the second quarter of 1999. In the settlement, the Company consented, without admitting or denying the SEC findings, to the SEC's entry of an administrative order that it cease and desist from committing or causing violations of certain of the antifraud, books and records, and internal controls provisions of the federal securities laws. Specifically, the SEC's Order found that, at least by June 9, 1999, the Company was aware of sufficient adverse information about its second quarter performance to make its continued support of public forecasts unreasonable. On July 6, 1999, the Company announced that both its second quarter revenues and earnings per share would be lower than previously anticipated. The SEC order assessed no monetary penalty or fine against the Company. As previously disclosed, the Company cooperated fully with the SEC in its inquiry.

Effective July 1, 2000, WM Holdings terminated the Waste Management Benefits Stock Trust (the "Trust"). In 1994, the Trust, which was created by WM Holdings, purchased, in exchange for a promissory note, all of the outstanding treasury shares of WM Holdings to fund various company benefit plans. Pursuant to the WM Holdings Merger, all of the shares held by the Trust were converted into shares of the Company's common stock. In accordance with the termination of the Trust, the shares previously owned by it have been returned to the Company as payment for the outstanding amount of the promissory note. The 7,892,612 shares returned to the Company will be classified as treasury shares.

SEASONALITY AND INFLATION

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

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

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 and SFAS No. 138, is effective for the Company in its first fiscal quarter of 2001. Management is currently assessing the impact that the adoption of these standards 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 quarterly and year-end reports made by the Company. The Company has resolved many of these actions and claims, as discussed in earlier filings. In July 2000, the Company resolved an action alleging breach of warranty and fraud, among other things, arising out of a transaction worth in excess of $11 million at its closing in 1995.

The following actions with respect to WM Holdings, however, are still 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 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 2000, the court of appeals upheld this certification order. Also in March 2000, 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 class, as currently constituted, consists of twenty-six transactions involving shares worth, in aggregate, approximately $132 million as valued at the time of the respective deals. The extent of damages in this class action has not yet been determined.

In March 2000, a group of companies that sold their assets to WM Holdings in exchange for common stock then valued at over $200 million pursuant to an asset purchase agreement (and who otherwise would have been included in the above class, as currently defined), brought a separate action against the Company for breach of contract and fraud, among other things. The Company and this seller group currently are litigating the question of whether their dispute should be submitted to arbitration for resolution. The extent of damages in the underlying action 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. This action is in its early stages and the extent of possible damages, if any, has not yet been determined.

A consolidated derivative action has also been filed in Delaware Chancery Court, nominally on behalf of the Company, against certain former officers and directors of WM Holdings and certain directors of the Company. The derivative plaintiffs seek, among other things, those monies paid by the Company to resolve those claims arising out of WM Holdings' restatement of earnings in February 1998 as well as a declaration that the Company does not have to pay retirement benefits to certain former officers of WM Holdings.

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. Additionally, a third former officer brought a similar action, which was subsequently dismissed without prejudice in March 2000. The Company is engaged in discussions to settle the disputes between it and each of these former officers.

In addition to the actions with respect to WM Holdings, the following actions with respect to the Company or its other subsidiaries are pending.

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 current and former 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 current and former 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. On May 8, 2000, the United States District Court for the Southern District of Texas entered an order appointing the Connecticut Retirement Plan and Trust Funds as lead plaintiff in the consolidated cases and appointing the law firm of Goodkind Labaton Rudoff & Suchrow LLP as lead plaintiff's counsel.

The lead plaintiff filed its Amended Consolidated Class Action Complaint (the "Complaint") on July 14, 2000. The Complaint pleads claims on behalf of a putative class consisting of all purchasers of Company securities (including common stock, debentures and call options), and all sellers of put options, from June 11, 1998 through November 9, 1999. The Complaint also pleads additional claims on behalf of two putative subclasses: (i) the "Merger Subclass," consisting of all persons who exchanged WM Holdings shares for the Company's stock when WM Holdings and the Company merged, and (ii) the "Eastern Merger Subclass," consisting of all persons who exchanged Eastern Environmental Services, Inc. ("Eastern") stock for the Company's stock when Eastern and the Company merged on December 31, 1998 (the "Eastern Merger"). Among other things, the plaintiffs allege that the Company and certain of its officers and directors (i) made misrepresentations in the registration statement and prospectus filed with the SEC in connection with the WM Holdings Merger, (ii) made knowingly false earnings projections for the three months ended June 30, 1999 and (iii) 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 and (iv) made separate and distinct misrepresentations about the Company's operations and finances on and after July 29, 1999, culminating in the Company's taking a pre-tax charge of $1.76 billion in the third quarter of 1999. The plaintiffs also claim that certain of the Company's current and former 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, cannot yet be determined.

On June 29, 2000, a putative class action was filed against the Company in Delaware state court by a class of former shareholders of Eastern who exchanged their Eastern shares for the Company's shares in the Eastern Merger. The plaintiffs allege that the Company stock they received in exchange for their Eastern shares was overvalued for the reasons alleged in the consolidated class actions in Texas. The claims and putative class members in this case fall within the scope of the consolidated class actions in Texas. The case is at an early stage, and the extent of possible damages, if any, cannot yet be determined.

The Company has been sued in several lawsuits, and two arbitration actions initiated, by individuals who received common stock in the sales of their businesses to the Company or to a company later acquired by the Company. The first of these actions, filed in state court in Oregon in November 1999, was resolved in June 2000. The two arbitrations that have been initiated both relate to the sale of businesses to 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. Two other lawsuits were filed in June 2000, one in state court in California and another in state court in Virginia, both also relating to the sales of businesses to the Company. With the exception of the Oregon case and one of the arbitration cases, which have been resolved, all of these matters are in an early stage and the extent of possible damages, if any, cannot yet be determined.

In addition, three of the Company's shareholders have filed purported derivative lawsuits against certain current and former 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 current and former officers and directors, and alleged self-dealing by certain of the Company's current and former 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 Eastern Merger. The Company alleged, among other things, that the defendants usurped Eastern corporate opportunities for personal gain and otherwise mismanaged certain affairs of Eastern. Mr. Paolino and others alleged 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. The parties to these suits have withdrawn their respective complaints and are engaging in discussions to resolve these issues.

Several related shareholders have filed a lawsuit in state court in Texas against the Company and three of its former officers. 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. The case is in an early stage and the extent of damages, if any, cannot yet be determined.

In addition, the SEC 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. On June 21, 2000 the Company consented, without admitting or denying the findings, to the SEC's entry of an administrative Cease and Desist Order, finding that the Company had violated certain of the antifraud, books and records, and internal control provisions of the federal securities laws in connection with the July 6, 1999 announcement. The Order did not impose any fines or monetary penalties. The SEC noted in the Order that its inquiry was ongoing as to other parties.

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 and other matters alleged in the various complaints. As part of this investigation, the Company's Board of Directors authorized its Special Committee I to conduct a full investigation and evaluation of all matters relating to: (i) the reporting of the Company's first and second quarter 1999 operating results; (ii) the sales of the Company's stock by certain current and former corporate officials; and (iii) the allegations made in pending litigation respecting these matters and to report its findings and recommendations to those members of the Board of Directors it finds are sufficiently disinterested to act upon its findings and recommendations. Roderick M. Hills, a former chairman of the SEC and the former chairman of the Company's Audit Committee, served as Chairman of the Special Committees I until he retired from the Board of Directors in May 2000 in accordance with the retirement

provisions contained in the Company's Corporate Governance Guidelines. John C. Pope, current Chairman of the Company's Audit Committee, has succeeded Mr. Hills as Chairman of the Special Committee I.

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, attorneys filed a lawsuit on behalf of a putative class of plan participants against the Company, the Waste Management, Inc. Pension Plan, and various individual defendants, alleging violations of the Employee Retirement Income Security Act of 1974 ("ERISA") with respect to the termination of the Plan. Since the initial filing of the case, the plaintiffs have voluntarily dismissed certain counts and the Company has filed a Motion to Dismiss with respect to the remaining claims.

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 June 30, 2000, there were five 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 June 30, 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.

At the Company's Annual Meeting of Stockholders held on May 16, 2000, a proposal to elect the nominees listed in the following table as directors of the Company was submitted to a vote of the Company's stockholders. The following table also shows the results of voting as to each nominee:

NOMINEE	VOTES FOR	VOTES WITHHELD
Robert S. Miller	489,302,603	63,280,277
Paul M. Montrone	544,093,613	8,489,267
A. Maurice Myers	545,260,749	7,322,131

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

	VOTES FOR	VOTES AGAINST	ABSTENTIONS
Approve 1,000,000 share increase in shares available for grant under the Company's 1996 Stock Option Plan for Non-Employee Directors...	514,946,529	34,510,030	3,126,320
Approve adoption of Company's 2000 Stock Incentive Plan.....	474,461,424	75,102,940	3,018,516
Approve 1,250,000 share increase in shares reserved for purchase and issuance under the Company's Employee Stock Purchase Plan.....	536,756,251	13,060,591	2,766,038
Approve appointment of Arthur Andersen LLP as the Company's independent auditors for the fiscal year ending December 31, 2000.....	547,988,813	2,769,039	1,825,028

ITEM 5. OTHER INFORMATION

None.

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

(a) Exhibits:

EXHIBIT NO.*	DESCRIPTION
3	-- Restated Bylaws.
10	-- Employment Agreement between the Company and Robert E. Dees, Jr., dated May 10, 2000.
12	-- Computation of Ratio of Earnings to Fixed Charges.
27	-- Financial Data Schedule.

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

(b) Reports on Form 8-K:

None.

SIGNATURES

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

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: August 11, 2000

INDEX TO EXHIBITS

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EXHIBIT 3

BY-LAWS

OF

WASTE MANAGEMENT, INC.
(f/k/a USA WASTE SERVICES, INC.)
AS OF MAY 16, 2000

ARTICLE I

OFFICES

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

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

ARTICLE II

MEETINGS OF STOCKHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Calling of meeting to order.

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

(c) Presentation of proof of the due calling of the meeting.

(d) Presentation and examination of proxies and determination of a quorum.

(e) Reading and settlement of the minutes of the previous meeting.

(f) Reports of officers and committees.

(g) The election of directors if an annual meeting, or a meeting called for that purpose.

(h) Unfinished business.

(i) New business.

(j) Adjournment.

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE III

BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

COMMITTEES OF DIRECTORS

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

SECTION 4.2. Procedure; Meetings; Quorum. Any committee designated pursuant to Section 4.1 shall keep regular minutes of its proceedings and report the same to the Board of Directors when requested, shall fix its own rules or procedures to the extent not

otherwise set forth in the Charter or resolution with respect to such committee adopted by the Board of Directors, and shall meet at such times and at such place or places as may be provided by such rules, by the Charter for such committee adopted by the Board of Directors, or by resolution of such committee or resolution of the Board of Directors. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any resolution. Unless otherwise restricted by the Certificate of Incorporation or by these by-laws, the members of any committee designated by these by-laws or the Board of Directors, may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting may hear each other, and such participation shall constitute presence in person at such meeting. Unless otherwise restricted by the Certificate of Incorporation or these by-laws, any action required or permitted to be taken at any meeting of any committee of the Board of Directors may be taken without a meeting if all members of such committee consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of the committee.

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

ARTICLE V

NOTICE

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

SECTION 5.2. Written Waiver. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after

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

ARTICLE VI

OFFICERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VII

CONTRACTS, CHECKS AND DEPOSITS

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

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

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

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

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

ARTICLE VIII

CERTIFICATES OF STOCK

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

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

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

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

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

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

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

ARTICLE IX

DIVIDENDS

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

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

ARTICLE X

INDEMNIFICATION

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

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

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

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

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

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

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

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

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

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

ARTICLE XI

MISCELLANEOUS

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

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

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

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

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

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

ARTICLE XII

AMENDMENT

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

EXHIBIT 10

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 150% (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:

EXHIBIT 12

WASTE MANAGEMENT, INC.

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

	Six Months Ended June 30,	
	2000	1999
Income before income taxes and minority interests	$ 237,566	$1,153,573
Fixed charges deducted from income:		
Interest expense	409,807	361,068
Implicit interest in rents	32,456	30,734
	442,263	391,802
Earnings available for fixed charges	$ 679,829	$1,545,375
Interest expense	$ 409,807	$ 361,068
Capitalized interest	9,255	23,272
Implicit interest in rents	32,456	30,734
Total fixed charges	$ 451,518	$ 415,074
Ratio of earnings to fixed charges	1.5	3.7

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF WASTE MANAGEMENT, INC. FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-31-2000
JAN-01-2000
JUN-30-2000
103,545
0
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(6,639,410)
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.09
.09