

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2013

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**1001 Fannin
Suite 4000
Houston, Texas 77002**
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at April 18, 2013 was 467,025,512 (excluding treasury shares of 163,256,949).

PART I.

Item 1. Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Millions, Except Share and Par Value Amounts)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 307	\$ 194
Accounts receivable, net of allowance for doubtful accounts of \$54 and \$45, respectively	1,658	1,737
Other receivables	121	102
Parts and supplies	177	174
Deferred income taxes	84	76
Other assets	150	140
Total current assets	2,497	2,423
Property and equipment, net of accumulated depreciation and amortization of \$16,321 and \$16,112, respectively	12,512	12,651
Goodwill	6,399	6,291
Other intangible assets, net	424	397
Investments in unconsolidated entities	658	667
Other assets	665	668
Total assets	<u>\$ 23,155</u>	<u>\$ 23,097</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 674	\$ 842
Accrued liabilities	1,084	986
Deferred revenues	466	465
Current portion of long-term debt	964	743
Total current liabilities	3,188	3,036
Long-term debt, less current portion	9,045	9,173
Deferred income taxes	1,928	1,947
Landfill and environmental remediation liabilities	1,486	1,459
Other liabilities	792	807
Total liabilities	16,439	16,422
Commitments and contingencies		
Equity:		
Waste Management, Inc. stockholders' equity:		
Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued	6	6
Additional paid-in capital	4,553	4,549
Retained earnings	6,875	6,879
Accumulated other comprehensive income	160	193
Treasury stock at cost, 163,755,545 and 166,062,235 shares, respectively	(5,199)	(5,273)
Total Waste Management, Inc. stockholders' equity	6,395	6,354
Noncontrolling interests	321	321
Total equity	6,716	6,675
Total liabilities and equity	<u>\$ 23,155</u>	<u>\$ 23,097</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Millions, Except per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Operating revenues	<u>\$3,336</u>	<u>\$3,295</u>
Costs and expenses:		
Operating	2,209	2,166
Selling, general and administrative	390	407
Depreciation and amortization	323	317
Restructuring	8	4
(Income) expense from divestitures, asset impairments and unusual items	4	—
	<u>2,934</u>	<u>2,894</u>
Income from operations	402	401
Other income (expense):		
Interest expense	(122)	(122)
Interest income	1	1
Equity in net losses of unconsolidated entities	(8)	(7)
Other, net	(11)	(1)
	<u>(140)</u>	<u>(129)</u>
Income before income taxes	262	272
Provision for income taxes	86	89
Consolidated net income	176	183
Less: Net income attributable to noncontrolling interests	8	12
Net income attributable to Waste Management, Inc.	<u>\$ 168</u>	<u>\$ 171</u>
Basic earnings per common share	<u>\$ 0.36</u>	<u>\$ 0.37</u>
Diluted earnings per common share	<u>\$ 0.36</u>	<u>\$ 0.37</u>
Cash dividends declared per common share	<u>\$0.365</u>	<u>\$0.355</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Consolidated net income	<u>\$176</u>	<u>\$183</u>
Other comprehensive income (loss), net of taxes:		
Unrealized gains and losses on derivative instruments:		
Unrealized gains (losses), resulting from changes in fair value, net of tax expense (benefit) of \$(0) and \$2, respectively	(1)	4
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of \$(0) and \$2, respectively	<u>(1)</u>	<u>4</u>
	(2)	8
Unrealized gains on available-for-sale securities, net of tax expense of \$1 and \$1, respectively	1	2
Foreign currency translation adjustments	(32)	24
Change in funded status of post-retirement benefit obligation, net of tax expense of \$0 and \$0, respectively	<u>—</u>	<u>—</u>
Other comprehensive income (loss), net of taxes	<u>(33)</u>	<u>34</u>
Comprehensive income	143	217
Less: Comprehensive income attributable to noncontrolling interests	<u>8</u>	<u>12</u>
Comprehensive income attributable to Waste Management, Inc.	<u>\$135</u>	<u>\$205</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Consolidated net income	\$ 176	\$ 183
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	323	317
Deferred income tax (benefit) provision	(25)	3
Interest accretion on landfill liabilities	23	20
Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets	1	1
Provision for bad debts	19	14
Equity-based compensation expense	21	15
Excess tax benefits associated with equity-based transactions	(6)	(8)
Net gain from disposal of assets	(3)	(4)
Effect of (income) expense from divestitures, asset impairments and unusual items and other	15	—
Equity in net losses of unconsolidated entities, net of dividends	8	7
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	88	56
Other current assets	(18)	(33)
Other assets	(3)	13
Accounts payable and accrued liabilities	(24)	(99)
Deferred revenues and other liabilities	(18)	(10)
Net cash provided by operating activities	<u>577</u>	<u>475</u>
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(180)	(129)
Capital expenditures	(266)	(379)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	37	6
Net receipts from restricted trust and escrow accounts	—	13
Investments in unconsolidated entities	(12)	(13)
Other	—	(1)
Net cash used in investing activities	<u>(421)</u>	<u>(503)</u>
Cash flows from financing activities:		
New borrowings	119	287
Debt repayments	(26)	(205)
Cash dividends	(170)	(164)
Exercise of common stock options	38	24
Excess tax benefits associated with equity-based transactions	6	8
Distributions paid to noncontrolling interests	(8)	(9)
Other	—	17
Net cash used in financing activities	<u>(41)</u>	<u>(42)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(2)</u>	<u>1</u>
Increase (decrease) in cash and cash equivalents	113	(69)
Cash and cash equivalents at beginning of period	194	258
Cash and cash equivalents at end of period	<u>\$ 307</u>	<u>\$ 189</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In Millions, Except Shares in Thousands)
(Unaudited)

	Waste Management, Inc. Stockholders' Equity								
	Total	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests
		Shares	Amounts				Shares	Amounts	
Balance, December 31, 2012	\$6,675	630,282	\$ 6	\$ 4,549	\$ 6,879	\$ 193	(166,062)	\$ (5,273)	\$ 321
Consolidated net income	176	—	—	—	168	—	—	—	8
Other comprehensive income (loss), net of taxes	(33)	—	—	—	—	(33)	—	—	—
Cash dividends declared	(170)	—	—	—	(170)	—	—	—	—
Equity-based compensation transactions, including dividend equivalents, net of taxes	76	—	—	4	(2)	—	2,304	74	—
Distributions paid to noncontrolling interests	(8)	—	—	—	—	—	—	—	(8)
Other	—	—	—	—	—	—	2	—	—
Balance, March 31, 2013	<u>\$6,716</u>	<u>630,282</u>	<u>\$ 6</u>	<u>\$ 4,553</u>	<u>\$ 6,875</u>	<u>\$ 160</u>	<u>(163,756)</u>	<u>\$ (5,199)</u>	<u>\$ 321</u>

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; Waste Management's wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management or its subsidiaries are the primary beneficiary as described in Note 14. Waste Management is a holding company and all operations are conducted by its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term "WM," we are referring only to Waste Management, Inc., the parent holding company.

We are North America's leading provider of comprehensive waste management services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our "Solid Waste" business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, recycling and resource recovery, and disposal services. Through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

Through the third quarter of 2012, the operations of our local subsidiaries were primarily organized under our Eastern, Midwest, Southern, Western and Wheelabrator operating Groups. In July 2012, we announced a reorganization of our operations, designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations. Principal organizational changes included removing the management layer of our four geographic Groups, each of which previously constituted a reportable segment, and consolidating and reducing the number of geographic Areas from 22 to 17.

Following our reorganization, our senior management now evaluates, oversees and manages the financial performance of our Solid Waste business subsidiaries through these 17 Areas. Our reportable segments have been realigned to conform with our new organizational structure. See Note 10 for additional information related to this reorganization. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, including our strategic accounts program that expanded with the acquisition of Oakleaf Global Holdings on July 28, 2011 ("Oakleaf"), which are presented in this report as "Other." Additional information related to our segments can be found in Note 8.

The Condensed Consolidated Financial Statements as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity 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 our Annual Report on Form 10-K for the year ended December 31, 2012.

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Adoption of New Accounting Pronouncement

Comprehensive Income — In February 2013, the Financial Accounting Standards Board issued amended authoritative guidance associated with comprehensive income, which requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income by component. Additionally, companies are required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendment to authoritative guidance associated with comprehensive income was effective for the Company on January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements. We have presented the information required by this amendment in Note 12.

Reclassifications

Certain reclassifications have been made to our prior period consolidated financial information in order to conform to the current year presentation.

2. Landfill and Environmental Remediation Liabilities

Liabilities for landfill and environmental remediation costs are presented in the table below (in millions):

	March 31, 2013			December 31, 2012		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	\$ 101	\$ 30	\$ 131	\$ 104	\$ 28	\$ 132
Long-term	1,264	222	1,486	1,234	225	1,459
	<u>\$1,365</u>	<u>\$ 252</u>	<u>\$1,617</u>	<u>\$1,338</u>	<u>\$ 253</u>	<u>\$1,591</u>

The changes to landfill and environmental remediation liabilities for the year ended December 31, 2012 and the three months ended March 31, 2013 are reflected in the table below (in millions):

	Landfill	Environmental Remediation
December 31, 2011	\$1,292	\$ 273
Obligations incurred and capitalized	58	—
Obligations settled	(87)	(30)
Interest accretion	84	4
Revisions in cost estimates and interest rate assumptions	(8)	5
Acquisitions, divestitures and other adjustments	(1)	1
December 31, 2012	1,338	253
Obligations incurred and capitalized	13	—
Obligations settled	(11)	(5)
Interest accretion	23	1
Revisions in cost estimates and interest rate assumptions	2	2
Acquisitions, divestitures and other adjustments	—	1
March 31, 2013	<u>\$1,365</u>	<u>\$ 252</u>

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 14 for additional information related to these trusts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Debt

The following table summarizes the major components of debt at each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of March 31, 2013:

	March 31, 2013	December 31, 2012
Revolving credit facility, maturing May 2016 (weighted average interest rate of 1.4% at March 31, 2013 and December 31, 2012)	\$ 500	\$ 400
Letter of credit facilities, maturing through June 2015	—	—
Canadian credit facility (weighted average effective interest rate of 2.9% at March 31, 2013 and December 31, 2012)	73	75
Senior notes and debentures, maturing through 2039, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 5.7% at March 31, 2013 and December 31, 2012)	6,301	6,305
Tax-exempt bonds, maturing through 2041, fixed and variable interest rates ranging from 0.1% to 7.4% (weighted average interest rate of 2.7% at March 31, 2013 and 2.8% at December 31, 2012)	2,727	2,727
Capital leases and other, maturing through 2055, interest rates up to 12%	408	409
	<u>10,009</u>	<u>9,916</u>
Current portion of long-term debt	964	743
	<u>\$ 9,045</u>	<u>\$ 9,173</u>

Debt Classification

As of March 31, 2013, we had (i) \$1,159 million of debt maturing within the next 12 months, including \$500 million of borrowings outstanding under the revolving credit facility, U.S.\$73 million of advances outstanding under our Canadian credit facility, \$350 million of 5.0% senior notes that mature in March 2014 and \$161 million of tax-exempt bonds and (ii) \$485 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance a portion of this debt on a long-term basis as of March 31, 2013, we have classified \$680 million of this debt as long-term and the remaining \$964 million as current obligations.

Revolving Credit and Letter of Credit Facilities

As of March 31, 2013, we had an aggregate committed capacity of \$2.5 billion for letters of credit under various credit facilities. Our \$2.0 billion revolving credit facility expires in May 2016 and is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms that extend from June 2013 to June 2015. As of March 31, 2013, we had an aggregate of \$1.4 billion of letters of credit outstanding under various credit facilities. Approximately \$1.0 billion of these letters of credit have been issued under our revolving credit facility. We had \$500 million of outstanding borrowings under our revolving credit facility as of March 31, 2013.

Debt Borrowings and Repayments

During the first quarter of 2013, we incurred net borrowings of \$100 million under our revolving credit facility.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Derivative Instruments and Hedging Activities

The following table summarizes the fair values of derivative instruments recorded in our Condensed Consolidated Balance Sheet (in millions):

<u>Derivatives Designated as Hedging Instruments</u>	<u>Balance Sheet Location</u>	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Electricity commodity derivatives	Current other assets	\$ —	\$ 1
Total derivative assets		\$ —	\$ 1
Interest rate derivatives	Current accrued liabilities	\$ 40	\$ —
Electricity commodity derivatives	Current accrued liabilities	10	5
Foreign currency derivatives	Current accrued liabilities	4	11
Interest rate derivatives	Long-term other liabilities	—	42
Total derivative liabilities		\$ 54	\$ 58

We have not offset fair value amounts recognized for our derivative instruments. For information related to the inputs used to measure our derivative assets and liabilities at fair value, refer to Note 13.

Fair Value Hedges*Interest Rate Swaps*

In prior years, we used interest rate swaps to maintain a portion of our debt obligations at variable market interest rates. As of March 31, 2013 and December 31, 2012, we did not have any of these hedges outstanding. In April 2012, we elected to terminate our interest rate swaps related to the interest payments on \$1 billion of our senior notes and, upon termination, we received \$76 million in cash for their fair value plus accrued interest receivable. The terminated interest rate swaps were associated with senior notes with maturities between November 2012 and 2018. The associated fair value adjustments to long-term debt are being amortized as a reduction to interest expense over the remaining terms of the underlying debt using the effective interest method.

We designated our interest rate swaps as fair value hedges of our fixed-rate senior notes. Fair value hedge accounting for interest rate swap contracts increased the carrying value of our debt instruments by \$74 million as of March 31, 2013 and \$79 million as of December 31, 2012.

Gains or losses on the derivatives as well as the offsetting losses or gains on the hedged items attributable to our interest rate swaps are recognized in current earnings. We include gains and losses on our interest rate swaps as adjustments to interest expense, which is the same financial statement line item where offsetting gains and losses on the related hedged items are recorded. The following table summarizes the fair value adjustments from active interest rate swaps and the underlying hedged items on our results of operations (in millions):

<u>Derivatives Designated as</u> <u>Fair Value Hedges</u>	<u>Statement of Operations Classification</u>	<u>Three Months Ended March 31,</u>			
		<u>Gain (Loss) on</u>		<u>Gain (Loss) on</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Interest rate swaps	Interest expense	\$ —	\$ (3)	\$ —	\$ 3

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We also recognize the impacts of (i) net periodic settlements of current interest on our active interest rate swaps and (ii) the amortization of previously terminated interest rate swap agreements as adjustments to interest expense. The following table summarizes the impact of periodic settlements of active swap agreements and the impact of terminated swap agreements on our results of operations (in millions):

	Three Months Ended	
	March 31,	
	2013	2012
Decrease to Interest Expense Due to Hedge Accounting for Interest Rate Swaps		
Periodic settlements of active swap agreements(a),(b)	\$ —	\$ 5
Terminated swap agreements(b)	5	2
	<u>\$ 5</u>	<u>\$ 7</u>

- (a) These amounts represent the net of our periodic variable-rate interest obligations and the swap counterparties' fixed-rate interest obligations. Our variable-rate obligations were based on a spread from the three-month LIBOR.
- (b) Due to our election to terminate our interest rate swap portfolio with a notional amount of \$1 billion in April 2012, periodic settlements of active swap agreements have decreased and amortization to interest expense of terminated swap agreements has increased.

Cash Flow Hedges*Forward-Starting Interest Rate Swaps*

In prior years, we entered into forward-starting interest rate swaps with a total notional value of \$525 million to hedge the risk of changes in semi-annual interest payments due to fluctuations in the forward ten-year LIBOR swap rate for anticipated fixed-rate debt issuances in 2011, 2012 and 2014. We designated these forward-starting interest rate swaps as cash flow hedges.

During the third quarter of 2012, \$200 million of these forward-starting interest rate swaps were terminated contemporaneously with the actual issuance of senior notes in September 2012, and we paid cash of \$59 million to settle the liabilities related to these swap agreements. The ineffectiveness recognized upon termination of these hedges was immaterial. At March 31, 2013 and December 31, 2012, our "Accumulated other comprehensive income" included \$62 million and \$64 million, respectively, of deferred losses related to these swaps and those terminated in prior years, which are being amortized as an increase to interest expense over the ten-year life of the related senior note issuances using the effective interest method. As of March 31, 2013, \$7 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months.

The active forward-starting interest rate swaps outstanding as of March 31, 2013 relate to an anticipated debt issuance to repay the \$350 million of 5.0% senior notes that mature in March 2014. As of March 31, 2013, the fair value of these active interest rate derivatives was comprised of \$40 million of current liabilities compared with \$42 million of long-term liabilities as of December 31, 2012.

Treasury Rate Locks

At March 31, 2013 and December 31, 2012, our "Accumulated other comprehensive income" included \$12 million of deferred losses associated with Treasury rate locks that had been executed in previous years in anticipation of senior note issuances. These deferred losses are reclassified as an increase to interest expense over the life of the related senior note issuances, which extend through 2032. As of March 31, 2013, \$2 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Foreign Currency Derivatives

We use foreign currency exchange rate derivatives to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between WM Holdings and one of its Canadian subsidiaries. As of March 31, 2013, we had foreign currency forward contracts outstanding for all of the anticipated cash flows associated with a debt arrangement between these wholly-owned subsidiaries. The hedged cash flows as of March 31, 2013 include C\$370 million of principal and C\$10 million of interest which are scheduled to be repaid on October 31, 2013. We designated these forward contracts as cash flow hedges. Gains or losses on the underlying hedged items attributable to foreign currency exchange risk are recognized in current earnings.

Electricity Commodity Derivatives

We use “receive fixed, pay variable” electricity commodity swaps to reduce the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. We hedged 628,800 megawatt hours, or approximately 20%, of Wheelabrator’s full year 2012 merchant electricity sales and the swaps executed through March 31, 2013 are expected to hedge about 1.75 million megawatt hours, or approximately 54%, of Wheelabrator’s full year 2013 merchant electricity sales. For the three-month periods ended March 31, 2013 and 2012, we hedged 53% and 31%, respectively, of our merchant electricity sales.

Amounts reported in other comprehensive income and accumulated other comprehensive income are reported net of tax. The following table summarizes the pre-tax impacts of our cash flow derivatives on our comprehensive income and results of operations (in millions):

Derivatives Designated as Cash Flow Hedges	Amount of Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Statement of Operations Classification	Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
	Three Months Ended March 31,			Three Months Ended March 31,	
	2013	2012		2013	2012
Forward-starting interest rate swaps	\$ 2	\$ 5	Interest expense	\$ (2)	\$ —
Treasury rate locks	—	—	Interest expense	—	(2)
Foreign currency derivatives	7	(5)	Other, net	8	(9)
Electricity commodity derivatives	(10)	6	Operating revenues	(5)	5
	<u>\$ (1)</u>	<u>\$ 6</u>		<u>\$ 1</u>	<u>\$ (6)</u>

There was no significant ineffectiveness associated with our cash flow hedges during the three months ended March 31, 2013 or 2012.

Credit-Risk-Related Contingent Features

Our interest rate derivative instruments have in the past, and may in the future, contain provisions related to the Company’s credit rating. These provisions generally provide that if the Company’s credit rating were to fall to specified levels below investment grade, the counterparties have the ability to terminate the derivative agreements, resulting in settlement of all affected transactions. As of March 31, 2013 and December 31, 2012, we did not have any interest rate derivatives outstanding that contained these credit-risk-related features.

5. Income Taxes

Our effective income tax rate for the three months ended March 31, 2013 and 2012 was 32.8%. We evaluate our effective income tax rate at each interim period and adjust it accordingly as facts and circumstances warrant. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended March 31, 2013 was primarily due to the favorable impact of federal tax credits and tax audit settlements offset in part by the unfavorable impact of state and local income taxes and tax implications related to book impairments. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended March 31, 2012 was primarily due to the favorable impact of federal and state tax credits, offset in part by the unfavorable impact of state and local income taxes.

Investment in Refined Coal Facility — In January 2011, we acquired a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility in North Dakota. The facility's refinement processes qualify for federal tax credits that are expected to be realized through 2019 in accordance with Section 45 of the Internal Revenue Code.

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results and other reductions in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. During the three months ended March 31, 2013 and 2012, we recognized \$1 million and less than \$1 million, respectively, of net losses resulting from our share of the entity's operating losses. Our tax provision for each of the three-month periods ended March 31, 2013 and 2012 was reduced by \$3 million primarily as a result of tax credits realized from this investment. See Note 14 for additional information related to this investment.

Investment in Federal Low-income Housing Tax Credits — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. The entity's low-income housing investments qualify for federal tax credits that are expected to be realized through 2020 in accordance with Section 42 of the Internal Revenue Code.

We account for our investment in this entity using the equity method of accounting. We recognize our share of the entity's results and reductions in the value of our investment in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. The value of our investment decreases as the tax credits are generated and utilized. During each of the three-month periods ended March 31, 2013 and 2012, we recognized \$6 million of losses relating to our equity investment in this entity, \$1 million of interest expense, and a reduction in our tax provision of \$7 million (including \$4 million of tax credits). See Note 14 for additional information related to this investment.

Recent Legislation — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and includes an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 can be depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provision will have no impact on our 2013 effective tax rate although it will reduce our cash taxes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Earnings Per Share

Basic and diluted earnings per share were computed using the following common share data (shares in millions):

	Three Months Ended	
	March 31,	
	2013	2012
Number of common shares outstanding at end of period	466.5	462.7
Effect of using weighted average common shares outstanding	(0.8)	(0.6)
Weighted average basic common shares outstanding	465.7	462.1
Dilutive effect of equity-based compensation awards and other contingently issuable shares	0.8	1.3
Weighted average diluted common shares outstanding	466.5	463.4
Potentially issuable shares	15.4	17.4
Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding	7.3	8.3

7. Commitments and Contingencies

Financial Instruments — We have obtained letters of credit, performance bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation, and other obligations. Letters of credit generally are supported by our revolving credit facility and other credit facilities established for that purpose. We obtain surety bonds and insurance policies from an entity in which we have a noncontrolling financial interest. We also obtain insurance from a wholly-owned insurance company, the sole business of which is to issue policies for us. In those instances where our use of financial assurance from entities we own or have financial interests in is not allowed, we have available alternative financial assurance mechanisms.

Management does not expect that any claims against or draws on these instruments would have a material adverse effect on our consolidated financial statements. We have not experienced any unmanageable difficulty in obtaining the required financial assurance instruments for our current operations. In an ongoing effort to mitigate risks of future cost increases and reductions in available capacity, we continue to evaluate various options to access cost-effective sources of financial assurance.

Insurance — We carry insurance coverage for protection of our assets and operations from certain risks including automobile liability, general liability, real and personal property, workers' compensation, directors' and officers' liability, pollution legal liability and other coverages we believe are customary to the industry. Our exposure to loss for insurance claims is generally limited to the per incident deductible under the related insurance policy. Our exposure, however, could increase if our insurers are unable to meet their commitments on a timely basis.

We have retained a significant portion of the risks related to our automobile, general liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions. We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Guarantees — In the ordinary course of our business, WM and WM Holdings enter into guarantee agreements associated with their subsidiaries' operations. Additionally, WM and WM Holdings have each guaranteed all of the senior debt of the other entity. No additional liabilities have been recorded for these intercompany guarantees because all of the underlying obligations are reflected in our Condensed Consolidated Balance Sheets.

We also have guaranteed the obligations and certain performance requirements of, and provided indemnification to, third parties in the ordinary course of business for both consolidated and unconsolidated entities. Guarantee agreements outstanding as of March 31, 2013 include (i) guarantees of unconsolidated entities' financial obligations maturing through 2020 for maximum future payments of \$10 million; and (ii) agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 20 of our landfills. Our indemnification obligations generally arise from divestitures and provide that we will be responsible for liabilities associated with our operations for events that occurred prior to the sale of the operations. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets or other market conditions are achieved post-closing and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. We do not currently believe that contingent obligations to provide indemnification or pay additional post-closing consideration in connection with our divestitures or acquisitions could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Environmental Matters — A significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection as we are subject to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by our operations, or for damage caused by conditions that existed before we acquired a site. In addition to remediation activity required by state or local authorities, such liabilities include potentially responsible party, or PRP, investigations. The costs associated with these liabilities can include settlements, certain legal and consultant fees, as well as incremental internal and external costs directly associated with site investigation and clean-up.

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the investigation of the extent of environmental impact. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$140 million higher than the \$252 million recorded in the Condensed Consolidated Financial Statements as of March 31, 2013. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

As of March 31, 2013, we had been notified that we are a PRP in connection with 79 locations listed on the EPA's Superfund National Priorities List, or NPL. Of the 79 sites at which claims have been made against us, 15 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to characterize or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 64 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

The majority of these proceedings involving NPL sites that we do not own are based on allegations that certain of our subsidiaries (or their predecessors) transported hazardous substances to the sites, often prior to our acquisition of these subsidiaries. CERCLA generally provides for liability for those parties owning, operating, transporting to or disposing at the sites. 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 remediation, which costs could be substantial and could have a material adverse effect on our consolidated financial statements. At some of the sites at which we have been identified as a PRP, our liability is well defined as a consequence of a governmental decision and an agreement among liable parties as to the share each will pay for implementing that remedy. At other sites, where no remedy has been selected or the liable parties have been unable to agree on an appropriate allocation, our future costs are uncertain.

Item 103 of the SEC's Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings, or such proceedings are known to be contemplated, unless we reasonably believe that the matter will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than \$100,000. The following matters are disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of any such matters, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

On April 4, 2006, the EPA issued a Notice of Violation ("NOV") to Waste Management of Hawaii, Inc. ("WM of Hawaii"), an indirect wholly-owned subsidiary of WM, and to the City and County of Honolulu for alleged violations of the federal Clean Air Act, based on alleged failure to submit certain reports and design plans required by the EPA, and the failure to begin and timely complete the installation of a gas collection and control system ("GCCS") for the Waimanalo Gulch Sanitary Landfill on Oahu. In March 2013, WM of Hawaii and the EPA lodged a consent decree with the federal district court in Hawaii in which WM of Hawaii agreed to pay a penalty of \$1.1 million to resolve the alleged violations. The consent decree was entered by the court on April 17, 2013. WM of Hawaii also agreed to implement additional procedures for monitoring landfill gas generation in the landfill.

On December 22, 2011, the Harris County Attorney in Houston, Texas filed suit against McGinnes Industrial Maintenance Corporation ("MIMC"), WM and Waste Management of Texas, Inc., et. al, seeking civil penalties and attorneys' fees for alleged violations of the Texas Water Code and the Texas Health and Safety Code. The County's Original Petition pending in the District Court of Harris County, Texas alleges the mismanagement of certain waste pits that were operated from 1965 to 1966 by MIMC. In 1998, a predecessor of WM acquired the stock of the parent entity of MIMC.

On March 22, 2013, the Los Angeles County Superior Court entered a Final Judgment on Consent resolving an enforcement action filed on March 18, 2013 by the California Department of Toxic Substances Control ("DTSC") against Chemical Waste Management, Inc. ("CWM") concerning alleged violations at CWM's Kettleman Hills Facility. The alleged violations related to treatment of hazardous waste and reporting procedures, primarily in connection with third party transporter spills on our property. Pursuant to the Final Judgment on Consent, CWM, an indirect wholly-owned subsidiary of WM, paid a civil penalty and reimbursed DTSC's costs, which amounts totaled \$311,194. CWM also agreed to implement certain reporting procedures.

Additionally, the United States Attorney's Office for the District of Hawaii has been conducting an investigation prompted by allegations of violations of the federal Clean Water Act involving discharge of stormwater at the Waimanalo Gulch Sanitary Landfill, located on Oahu, in connection with three major storm

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

events in December 2010 and January 2011. No formal enforcement action has been brought against the Company. While we could potentially be subject to sanctions, including requirements to pay monetary penalties, in connection with a future proceeding that may arise from the investigation, a range of loss cannot currently be estimated because no proceeding has yet commenced and significant factual and legal issues remain. We are cooperating with the U.S. Attorney's Office.

Litigation — In April 2002, certain former participants in the ERISA plans of WM Holdings filed a lawsuit in the U.S. District Court for the District of Columbia in a case entitled *William S. Harris, et al. v. James E. Koenig, et al.* The lawsuit attempts to increase the recovery of a class of ERISA plan participants on behalf of the plan based on allegations related to both the events alleged in, and the settlements relating to, the securities class action against WM Holdings that was settled in 1998, the litigation against WM in Texas that was settled in 2002, as well as the decision to offer WM common stock as an investment option within the plan beginning in 1990, despite alleged knowledge by at least two members of the investment committee of financial misstatement by WM during the relevant time period.

During the second quarter of 2010, the Court dismissed certain claims against individual defendants, including all claims against each of the current members of our Board of Directors. Previously, plaintiffs dismissed all claims related to the settlement of the securities class action against WM that was settled in 2002, and the court certified a limited class of participants who may bring claims on behalf of the plan, but not individually. During the third quarter of 2011, the Court ruled in favor of WM and two former employees dismissing all claims brought by the plaintiffs related to the decision to offer WM stock as an investment option within the plan. We have reached a settlement with the plaintiffs on this matter. The proposed class settlement agreement was given final approval by the Court on March 18, 2013. The settlement will not have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

In October 2011 and January 2012, we were named as a defendant in a purported class action in the Circuit Court of Sarasota County, Florida and the Circuit Court of Lawrence County Alabama, respectively. These cases primarily pertain to our fuel and environmental charges included on our invoices, generally alleging that such charges were not properly disclosed, were unfair and were contrary to the customer service contracts. The law firm that filed these lawsuits had filed, in 2008, a purported class action against subsidiaries of WM in Bullock County, Alabama, making similar allegations. The prior Alabama suit was removed to federal court, where the federal court ultimately dismissed the plaintiffs' national class action claims. The plaintiffs then elected to dismiss the case without prejudice. We will vigorously defend against these pending lawsuits. Given the inherent uncertainties of litigation, including the early stage of these cases, the unknown size of any potential class, and legal and factual issues in dispute, the outcome of these cases cannot be predicted and a range of loss cannot currently be estimated.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the 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. Additionally, we often enter into contractual arrangements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these arrangements is inherently subject to subjective determinations and may result in disputes, including litigation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As a large company with operations across the United States and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us include commercial, customer, and employment-related claims, including purported class action lawsuits related to our sales and marketing practices and our customer service agreements and purported class actions involving federal and state wage and hour and other laws. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. These actions are in various procedural stages, and some are covered in part by insurance. We currently do not believe that the eventual outcome of any such actions could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

WM's charter and bylaws provide that WM shall indemnify against all liabilities and expenses, and upon request shall advance expenses to, any person who is subject to a pending or threatened proceeding because such person is a director or officer of the Company. Such indemnification is required to the maximum extent permitted under Delaware law. Accordingly, the director or officer must execute an undertaking to reimburse the Company for any fees advanced if it is later determined that the director or officer was not entitled to have such fees advanced under Delaware law. Additionally, WM has entered into separate indemnification agreements with each of the members of its Board of Directors, its Chief Executive Officer and each of its executive vice presidents. The employment agreements between WM and its Chief Executive Officer and other executive and senior vice presidents also contain a direct contractual obligation of the Company to provide indemnification to the executive. The Company may incur substantial expenses in connection with the fulfillment of its advancement of costs and indemnification obligations in connection with current actions involving former officers of the Company or its subsidiaries or other actions or proceedings that may be brought against its former or current officers, directors and employees.

Multiemployer Defined Benefit Pension Plans — About 20% of our workforce is covered by collective bargaining agreements with various union locals across the United States and Canada. As a result of some of these agreements, certain of our subsidiaries are participating employers in a number of trustee-managed multiemployer defined benefit pension plans for the affected employees. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. A complete or partial withdrawal from a multiemployer pension plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them.

One of the most significant multiemployer pension plans in which we have participated is the Central States, Southeast and Southwest Areas Pension Plan ("Central States Pension Plan"). The Central States Pension Plan is in "critical status," as defined by the Pension Protection Act of 2006. Since 2008, certain of our affiliates have bargained to remove covered employees from the Central States Pension Plan, resulting in a series of withdrawals, and we have recognized charges to "Operating" expense associated with the withdrawal of certain bargaining units from the Central States Pension Plan and other underfunded multiemployer pension plans. In October 2011, employees at the last of our affiliates with active participants in the Central States Pension Plan voted to decertify the union that represented them, withdrawing themselves from the Central States Pension Plan.

We are still negotiating and litigating final resolutions of our withdrawal liability for certain previous withdrawals. Except in the case of our withdrawal from the Central States Pension Plan mentioned above, we do not believe any additional liability above the charges we have already recognized for such previous withdrawals could be material to the Company's business, financial condition, liquidity, results of operations or cash flows. In addition to charges recognized in prior years, we currently estimate that we could incur up to approximately \$40 million in future charges based on demands from representatives of the Central States Pension Plan. As a result, we do not anticipate that the final resolution of the Central States Pension Plan matter could be material to the Company's business, financial condition or liquidity; however, such loss could have a material adverse effect on our cash flows and, to a lesser extent, our results of operations, for a particular reporting period. Similarly, we also do not believe that any future withdrawals, individually or in the aggregate, from the multiemployer pension

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

plans to which we contribute, could have a material adverse effect on our business, financial condition or liquidity. However, such withdrawals could have a material adverse effect on our results of operations or cash flows for a particular reporting period, depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer pension plan(s) at the time of such withdrawal(s).

Tax Matters — We are currently in the examination phase of IRS audits for the tax years 2012 and 2013 and expect these audits to be completed within the next nine and 21 months, respectively. We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our year-end tax return. We are also currently undergoing audits by various state and local jurisdictions that date back to 2000. We are not currently under audit in Canada and, due to the expiration of statutes of limitations, all tax years prior to 2008 are closed. On July 28, 2011, we acquired Oakleaf, which is subject to IRS examinations for years dating back to 2009. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf's pre-acquisition tax liabilities. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse impact on our results of operations or cash flows.

8. Segment and Related Information

In July 2012, we announced a reorganization of operations, designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations. Principal organizational changes included removing the management layer of our four geographic Groups, each of which previously constituted a reportable segment, and consolidating and reducing the number of our geographic Areas from 22 to 17.

Following our reorganization, our senior management now evaluates, oversees and manages the financial performance of our Solid Waste subsidiaries through these 17 Areas. The 17 Areas constitute our operating segments and none of the Areas individually meet the quantitative criteria to be a separate reportable segment. We considered the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geography with the same services offered across the Areas, and we concluded that aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas' operating margins. The economic variations experienced by our Areas is attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area's current or future economic performance. As a result of our consideration of economic and other similarities, we have established the following three reportable segments for our Solid Waste business: Tier 1, which is comprised almost exclusively of Areas in the Southern United States; Tier 2, which is comprised predominately of Areas located in the Midwest and Northeast United States; and Tier 3, which encompasses all Areas not included in Tier 1 or Tier 2. Our Wheelabrator business, which manages waste-to-energy facilities and independent power production plants, continues to be a separate reportable segment as it meets one of the quantitative disclosure thresholds. The operating segments not evaluated and overseen through the 17 Areas and Wheelabrator are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized financial information concerning our reportable segments for the three months ended March 31 is shown in the following table (in millions):

	Gross Operating Revenues	Intercompany Operating Revenues	Net Operating Revenues	Income from Operations
Three Months Ended:				
March 31, 2013				
Solid Waste:				
Tier 1	\$ 843	\$ (133)	\$ 710	\$ 207
Tier 2	1,516	(275)	1,241	298
Tier 3	826	(128)	698	109
Wheelabrator	205	(27)	178	9
Other	534	(25)	509	(41)
	<u>3,924</u>	<u>(588)</u>	<u>3,336</u>	<u>582</u>
Corporate and Other	—	—	—	(180)
Total	<u>\$ 3,924</u>	<u>\$ (588)</u>	<u>\$ 3,336</u>	<u>\$ 402</u>
March 31, 2012				
Solid Waste:				
Tier 1	\$ 826	\$ (116)	\$ 710	\$ 209
Tier 2	1,507	(238)	1,269	300
Tier 3	805	(113)	692	115
Wheelabrator	207	(30)	177	5
Other	468	(21)	447	(35)
	<u>3,813</u>	<u>(518)</u>	<u>3,295</u>	<u>594</u>
Corporate and Other	—	—	—	(193)
Total	<u>\$ 3,813</u>	<u>\$ (518)</u>	<u>\$ 3,295</u>	<u>\$ 401</u>

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business, changes in commodity prices and by general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in the summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Additionally, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins. Certain weather conditions, including severe winter storms, may result in the temporary suspension of our operations, which can significantly affect the operating results of the affected regions. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

9. Acquisitions

Greenstar, LLC — On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018; a portion of this consideration is contingent based on changes in certain recycling indexes. This additional consideration has a preliminary estimated fair value of \$36 million. Greenstar is an operator of recycling and resource recovery facilities. This acquisition will provide the Company’s customers with greater access to recycling solutions by supplementing the Company’s extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers. For the time period after the acquisition included in the three-month period ended March 31, 2013, Greenstar recognized revenues of \$25 million and net losses of \$3 million, which are included in our Condensed Consolidated Statement of Operations.

The preliminary allocation of purchase price was primarily to “Other intangible assets,” consisting primarily of supplier relationships, which had an estimated fair value of \$32 million; “Property and equipment,” which had an estimated fair value of \$57 million; and “Goodwill” of \$122 million. Goodwill is the result of synergies expected to be achieved from combining the operations of Greenstar with those of the Company. Goodwill has been assigned predominantly to our Areas and, to a lesser extent, our recycling brokerage services, as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes.

Other — During the first quarter of 2013, we also acquired three businesses related to our collection operations. During the first quarter of 2012, we paid \$94 million for interests in oil and gas producing properties through two transactions. The purchase price was allocated primarily to “Property and equipment.” Additionally, we acquired eight other businesses related to our collection and recycling operations.

10. Restructuring

During the three months ended March 31, 2013, we recognized a total of \$8 million of pre-tax restructuring charges, of which \$4 million were related to employee severance and benefit costs, including costs associated with our acquisition of Greenstar, and our 2012 restructuring. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the three months ended March 31, 2012, we recognized employee severance and benefit restructuring charges, including \$2 million associated with the reorganization of Oakleaf and \$2 million associated with certain other actions taken by the Company.

Through March 31, 2013, we had recognized charges of \$78 million related to employee severance and benefits associated with our restructuring efforts beginning in 2011 and we have paid approximately \$59 million of these costs incurred. At March 31, 2013, we had approximately \$16 million of accrued employee severance for our restructuring efforts, which will be paid through the end of 2014.

11. Asset Impairments and Unusual Items***(Income) expense from divestitures, asset impairments and unusual items***

During the first quarter of 2013, we recognized gains on divestitures of \$6 million, primarily attributable to the sale of a transfer station in our Greater Mid-Atlantic Area. These gains were offset by losses on divestitures of \$6 million related to investments in oil and gas producing properties. Additionally, we recognized \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our “Other” operations in Note 8.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other income (expense)

During the first quarter of 2013, we recognized impairment charges of \$11 million relating to other-than-temporary declines in the value of two investments accounted for under the cost method. These charges are recorded in “Other, net” in our Condensed Consolidated Statement of Operations.

12. Accumulated Other Comprehensive Income

The changes in the balances of each component of accumulated other comprehensive income, net of tax, which is included as a component of Waste Management, Inc. stockholders’ equity, are as follows (in millions):

	Three Months Ended March 31, 2013(a)				
	Gains and Losses on Derivative Instruments	Unrealized Gains and Losses on Available- for-Sale Securities	Foreign Currency Translation Adjustments	Post- Retirement Benefit Plans	Total
Balance, December 31, 2012	\$ (74)	\$ 4	\$ 276	\$ (13)	\$193
Other comprehensive income (loss) before reclassifications	(1)	1	(32)	—	(32)
Amounts reclassified from accumulated other comprehensive income	(1)	—	—	—	(1)
Net current period other comprehensive income (loss)	(2)	1	(32)	—	(33)
Balance, March 31, 2013	\$ (76)	\$ 5	\$ 244	\$ (13)	\$160

(a) Amounts in parentheses represent debits to accumulated other comprehensive income.

The significant amounts reclassified out of each component of accumulated other comprehensive income are as follows (in millions):

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income(a)		Statement of Operations Classification
	Three Months Ended March 31,		
	2013	2012	
Gains and losses on cash flow hedges:			
Forward-starting interest rate swaps	\$ (2)	\$ —	Interest expense
Treasury rate locks	—	(2)	Interest expense
Foreign currency derivatives	8	(9)	Other, net
Electricity commodity derivatives	(5)	5	Operating revenues
	1	(6)	Total before tax
	—	2	Tax (expense) benefit
Total reclassifications for the period	\$ 1	\$ (4)	Net of tax

(a) Amounts in parentheses represent debits to the statement of operations classification.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Fair Value Measurements

Assets and Liabilities Accounted for at Fair Value

Our assets and liabilities that are measured at fair value on a recurring basis include the following (in millions):

	Total	Fair Value Measurements at March 31, 2013 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(a)
Assets:				
Money market funds	\$216	\$ 216	\$ —	\$ —
Fixed-income securities	36	—	36	—
Redeemable preferred stock	25	—	—	25
Total assets	<u>\$277</u>	<u>\$ 216</u>	<u>\$ 36</u>	<u>\$ 25</u>
Liabilities:				
Interest rate derivatives	\$ 40	\$ —	\$ 40	\$ —
Electricity commodity derivatives	10	—	10	—
Foreign currency derivatives	4	—	4	—
Total liabilities	<u>\$ 54</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ —</u>
	Total	Fair Value Measurements at December 31, 2012 Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(a)
Assets:				
Money market funds	\$127	\$ 127	\$ —	\$ —
Fixed-income securities	37	—	37	—
Redeemable preferred stock	25	—	—	25
Electricity commodity derivatives	1	—	1	—
Total assets	<u>\$190</u>	<u>\$ 127</u>	<u>\$ 38</u>	<u>\$ 25</u>
Liabilities:				
Interest rate derivatives	\$ 42	\$ —	\$ 42	\$ —
Foreign currency derivatives	11	—	11	—
Electricity commodity derivatives	5	—	5	—
Total liabilities	<u>\$ 58</u>	<u>\$ —</u>	<u>\$ 58</u>	<u>\$ —</u>

- (a) Level 3 investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value currently available. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public comparables. There have not been any significant changes in the fair value of the redeemable preferred stock since our initial investment.

Fair Value of Debt

At March 31, 2013 and December 31, 2012, the carrying value of our debt was approximately \$10.0 billion and \$9.9 billion, respectively. The carrying value of our debt includes adjustments associated with fair value hedge accounting related to our interest rate swaps as discussed in Note 4.

The estimated fair value of our debt was approximately \$11.2 billion at March 31, 2013 and approximately \$11.3 billion at December 31, 2012. The estimated fair value of our senior notes is based on quoted market prices. The carrying value of remarketable debt and borrowings under our revolving credit facilities approximates fair value due to the short-term nature of the interest rates. The fair value of our other debt is estimated using discounted cash flow analysis, based on current market rates for similar types of instruments.

Although we have determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2013 and December 31, 2012. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

14. Variable Interest Entities

Following is a description of our financial interests in variable interest entities that we consider significant, including (i) those for which we have determined that we are the primary beneficiary of the entity and, therefore, have consolidated the entities into our financial statements; and (ii) those that represent a significant interest in an unconsolidated entity.

Consolidated Variable Interest Entities

Waste-to-Energy LLCs — In June 2000, two limited liability companies were established to purchase interests in existing leveraged lease financings at three waste-to-energy facilities that we lease, operate and maintain. We own a 0.5% interest in one of the LLCs (“LLC I”) and a 0.25% interest in the second LLC (“LLC II”). John Hancock Life Insurance Company (“Hancock”) owns 99.5% of LLC I and 99.75% of LLC II is owned by LLC I and the CIT Group (“CIT”). In 2000, Hancock and CIT made an initial investment of \$167 million in the LLCs, which was used to purchase the three waste-to-energy facilities and assume the seller’s indebtedness. Under the LLC agreements, the LLCs shall be dissolved upon the occurrence of any of the following events: (i) a written decision of all members of the LLCs; (ii) December 31, 2063; (iii) a court’s dissolution of the LLCs; or (iv) the LLCs ceasing to own any interest in the waste-to-energy facilities.

Income, losses and cash flows of the LLCs are allocated to the members based on their initial capital account balances until Hancock and CIT achieve targeted returns; thereafter, we will receive 80% of the earnings of each of the LLCs and Hancock and CIT will be allocated the remaining 20% proportionate to their respective equity interests. All capital allocations made through March 31, 2013 have been based on initial capital account balances as the target returns have not yet been achieved.

Our obligations associated with our interests in the LLCs are primarily related to the lease of the facilities. In addition to our minimum lease payment obligations, we are required to make cash payments to the LLCs for differences between fair market rents and our minimum lease payments. These payments are subject to adjustment based on factors that include the fair market value of rents for the facilities and lease payments made through the re-measurement dates. In addition, we may also be required under certain circumstances to make capital contributions to the LLCs based on differences between the fair market value of the facilities and defined termination values as provided for in the underlying lease agreements, although we believe the likelihood of the occurrence of these circumstances is remote.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We have determined that we are the primary beneficiary of the LLCs and consolidate these entities in our Consolidated Financial Statements because (i) all of the equity owners of the LLCs are considered related parties for purposes of applying this accounting guidance; (ii) the equity owners share power over the significant activities of the LLCs; and (iii) we are the entity within the related party group whose activities are most closely associated with the LLCs.

As of March 31, 2013 and December 31, 2012, our Condensed Consolidated Balance Sheets included \$293 million and \$296 million, respectively, of net property and equipment associated with the LLCs' waste-to-energy facilities and \$249 million and \$245 million, respectively, in noncontrolling interests associated with Hancock's and CIT's interests in the LLCs. During the three months ended March 31, 2013 and 2012, we recognized expense of \$11 million and \$13 million, respectively, for Hancock's and CIT's noncontrolling interests in the LLCs' earnings. The LLCs' earnings relate to the rental income generated from leasing the facilities to our subsidiaries, reduced by depreciation expense. The LLCs' rental income is eliminated in WM's consolidation.

Significant Unconsolidated Variable Interest Entities

Investment in U.K. Waste-to-Energy and Recycling Entity — In the first quarter of 2012, we formed a U.K. joint venture (the "JV"), together with a commercial waste management company ("Partner"), to develop, construct, operate and maintain a waste-to-energy and recycling facility in England. We own a 50% interest in the JV. The total cost of constructing this facility is expected to be £200 million, or \$304 million based on the exchange rate as of March 31, 2013. The JV will be funded primarily through loans from the joint venture partners and loans under the JV's credit facility agreements with third-party financial institutions. The funds loaned under the credit facility agreements will be used for the development and construction of the facility. We are committed to provide up to £57 million, or \$87 million based on the exchange rate as of March 31, 2013, of funding to the JV. Our actual commitment may be more or less depending on the actual cost of the facility. Through March 31, 2013, we had funded approximately £9 million, or \$13 million, through loans and less than \$1 million through equity contributions. These amounts are included in our Condensed Consolidated Balance Sheet as long-term "Other assets" and "Investments in unconsolidated entities," respectively. In addition to the funding commitments described above, the JV has entered into certain foreign currency and interest rate derivatives at the direction of the governmental authority that awarded the project to the JV. The impacts of gains or losses incurred on these derivatives will ultimately be remitted to or recoverable from the governmental authority under the terms of the project, and accordingly, are not reflected in our equity in net losses of unconsolidated entities. We also have guaranteed the performance of certain management services for the project for which our maximum exposure is not material.

In addition, a wholly-owned subsidiary of WM will be responsible for constructing the waste-to-energy facility for the JV under a fixed-price construction contract. Once the facility is constructed, a majority-owned subsidiary of WM will be responsible for operating and maintaining the facility for the JV under a substantially fixed-price operating and maintenance contract. Under the operating and maintenance contract, we have guaranteed our ability to operate this facility at certain performance levels that we believe are achievable. We also will be jointly responsible, along with our Partner, for the performance of sales and marketing services for the JV through a 50%-owned and unconsolidated entity. The fixed-price components of the above mentioned contracts were established based on estimates of expected construction, operation and maintenance costs. However, we may not achieve the financial results anticipated and could incur losses if the actual costs differ from the costs established in the contracts. A range of our exposure to potential loss under these contracts cannot presently be estimated.

We determined that we are not the primary beneficiary of the JV as all decision-making responsibility is shared jointly with our Partner. As such, we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate this entity.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investment in Refined Coal Facility — In January 2011, we acquired a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility. Along with the other equity investor, we support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our initial consideration for this investment consisted of a cash payment of \$48 million. As of March 31, 2013 and December 31, 2012, our investment balance was \$23 million and \$19 million, respectively, representing our current maximum pre-tax exposure to loss. Under the terms and conditions of the transaction, we do not believe that we have any material exposure to loss. Future contributions will commence once certain levels of tax credits have been generated and will continue through the expiration of the tax credits under Section 45 of the Internal Revenue Code, which occurs at the end of 2019. We are only obligated to make future contributions to the extent tax credits are generated. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

Investment in Federal Low-income Housing Tax Credits — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. We support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our target return on the investment is guaranteed and, therefore, we do not believe that we have any material exposure to loss. Our consideration for this investment totaled \$221 million, which was comprised of a \$215 million note payable and an initial cash payment of \$6 million. As of March 31, 2013 and December 31, 2012, our investment balance was \$148 million and \$153 million, respectively, and our debt balance was \$146 million and \$152 million, respectively. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

Trusts for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations — We have significant financial interests in trust funds that were created to settle certain of our final capping, closure, post-closure or environmental remediation obligations. Generally, we are the sole beneficiary of these restricted balances; however, certain of the funds have been established for the benefit of both the Company and the host community in which we operate. We have determined that these trust funds are variable interest entities; however, we are not the primary beneficiary of these entities because either (i) we do not have the power to direct the significant activities of the trusts or (ii) power over the trusts' significant activities is shared.

We account for the trusts for which we are the sole beneficiary as long-term "Other assets" in our Condensed Consolidated Balance Sheet. We reflect our interests in the unrealized gains and losses on available-for-sale securities held by these trusts as a component of "Accumulated other comprehensive income." These trusts had a fair value of \$123 million at March 31, 2013 and \$122 million at December 31, 2012. Our interests in the trusts that have been established for the benefit of both the Company and the host community in which we operate are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in "Other receivables," "Investments in unconsolidated entities" and long-term "Other assets" in our Condensed Consolidated Balance Sheet, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$111 million as of March 31, 2013 and \$110 million as of December 31, 2012.

As the party with primary responsibility to fund the related final capping, closure, post-closure or environmental remediation activities, we are exposed to risk of loss as a result of potential changes in the fair value of the assets of the trust. The fair value of trust assets can fluctuate due to (i) changes in the market value of the investments held by the trusts and (ii) credit risk associated with trust receivables. Although we are exposed to changes in the fair value of the trust assets, we currently expect the trust funds to continue to meet the statutory requirements for which they were established.

15. Condensed Consolidating Financial Statements

WM Holdings has fully and unconditionally guaranteed all of WM's senior indebtedness. WM has fully and unconditionally guaranteed all of WM Holdings' senior indebtedness. None of WM's other subsidiaries have guaranteed any of WM's or WM Holdings' debt. As a result of these guarantee arrangements, we are required to present the following condensed consolidating financial information (in millions):

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

March 31, 2013

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 145	\$ —	\$ 162	\$ —	\$ 307
Other current assets	—	7	2,183	—	2,190
	<u>145</u>	<u>7</u>	<u>2,345</u>	<u>—</u>	<u>2,497</u>
Property and equipment, net	—	—	12,512	—	12,512
Investments in and advances to affiliates	12,725	17,676	3,597	(33,998)	—
Other assets	43	12	8,091	—	8,146
Total assets	<u>\$12,913</u>	<u>\$17,695</u>	<u>\$ 26,545</u>	<u>\$ (33,998)</u>	<u>\$ 23,155</u>
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of long-term debt	\$ 856	\$ —	\$ 108	\$ —	\$ 964
Accounts payable and other current liabilities	105	5	2,114	—	2,224
	<u>961</u>	<u>5</u>	<u>2,222</u>	<u>—</u>	<u>3,188</u>
Long-term debt, less current portion	5,557	449	3,039	—	9,045
Other liabilities	—	—	4,206	—	4,206
Total liabilities	<u>6,518</u>	<u>454</u>	<u>9,467</u>	<u>—</u>	<u>16,439</u>
Equity:					
Stockholders' equity	6,395	17,241	16,757	(33,998)	6,395
Noncontrolling interests	—	—	321	—	321
	<u>6,395</u>	<u>17,241</u>	<u>17,078</u>	<u>(33,998)</u>	<u>6,716</u>
Total liabilities and equity	<u>\$12,913</u>	<u>\$17,695</u>	<u>\$ 26,545</u>	<u>\$ (33,998)</u>	<u>\$ 23,155</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2012

	<u>WM</u>	<u>WM</u>	<u>Non-Guarantor</u>	<u>Eliminations</u>	<u>Consolidated</u>
	ASSETS				
Current assets:					
Cash and cash equivalents	\$ 60	\$ —	\$ 134	\$ —	\$ 194
Other current assets	—	7	2,222	—	2,229
	<u>60</u>	<u>7</u>	<u>2,356</u>	<u>—</u>	<u>2,423</u>
Property and equipment, net	—	—	12,651	—	12,651
Investments in and advances to affiliates	12,686	16,697	3,437	(32,820)	—
Other assets	45	12	7,966	—	8,023
Total assets	<u>\$12,791</u>	<u>\$16,716</u>	<u>\$ 26,410</u>	<u>\$ (32,820)</u>	<u>\$ 23,097</u>
LIABILITIES AND EQUITY					
Current liabilities:					
Current portion of long-term debt	\$ 400	\$ —	\$ 343	\$ —	\$ 743
Accounts payable and other current liabilities	77	13	2,203	—	2,293
	<u>477</u>	<u>13</u>	<u>2,546</u>	<u>—</u>	<u>3,036</u>
Long-term debt, less current portion	5,918	449	2,806	—	9,173
Other liabilities	42	—	4,171	—	4,213
Total liabilities	<u>6,437</u>	<u>462</u>	<u>9,523</u>	<u>—</u>	<u>16,422</u>
Equity:					
Stockholders' equity	6,354	16,254	16,566	(32,820)	6,354
Noncontrolling interests	—	—	321	—	321
	<u>6,354</u>	<u>16,254</u>	<u>16,887</u>	<u>(32,820)</u>	<u>6,675</u>
Total liabilities and equity	<u>\$12,791</u>	<u>\$16,716</u>	<u>\$ 26,410</u>	<u>\$ (32,820)</u>	<u>\$ 23,097</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2013

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 3,336	\$ —	\$ 3,336
Costs and expenses	—	—	2,934	—	2,934
Income from operations	—	—	402	—	402
Other income (expense):					
Interest income (expense)	(89)	(8)	(24)	—	(121)
Equity in earnings of subsidiaries, net of taxes	222	227	—	(449)	—
Other, net	—	—	(19)	—	(19)
	133	219	(43)	(449)	(140)
Income before income taxes	133	219	359	(449)	262
Provision for (benefit from) income taxes	(35)	(3)	124	—	86
Consolidated net income	168	222	235	(449)	176
Less: Net income attributable to noncontrolling interests	—	—	8	—	8
Net income attributable to Waste Management, Inc.	<u>\$168</u>	<u>\$ 222</u>	<u>\$ 227</u>	<u>\$ (449)</u>	<u>\$ 168</u>

Three Months Ended March 31, 2012

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	\$ —	\$ —	\$ 3,295	\$ —	\$ 3,295
Costs and expenses	—	—	2,894	—	2,894
Income from operations	—	—	401	—	401
Other income (expense):					
Interest income (expense)	(88)	(8)	(25)	—	(121)
Equity in earnings of subsidiaries, net of taxes	224	229	—	(453)	—
Other, net	—	—	(8)	—	(8)
	136	221	(33)	(453)	(129)
Income before income taxes	136	221	368	(453)	272
Provision for (benefit from) income taxes	(35)	(3)	127	—	89
Consolidated net income	171	224	241	(453)	183
Less: Net income attributable to noncontrolling interests	—	—	12	—	12
Net income attributable to Waste Management, Inc.	<u>\$171</u>	<u>\$ 224</u>	<u>\$ 229</u>	<u>\$ (453)</u>	<u>\$ 171</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	<u>WM</u>	<u>WM Holdings</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Three Months Ended March 31, 2013					
Comprehensive income	\$170	\$ 222	\$ 200	\$ (449)	\$ 143
Less: Comprehensive income attributable to noncontrolling interests	—	—	8	—	8
Comprehensive income attributable to Waste Management, Inc.	<u>\$170</u>	<u>\$ 222</u>	<u>\$ 192</u>	<u>\$ (449)</u>	<u>\$ 135</u>
Three Months Ended March 31, 2012					
Comprehensive income	\$176	\$ 224	\$ 270	\$ (453)	\$ 217
Less: Comprehensive income attributable to noncontrolling interests	—	—	12	—	12
Comprehensive income attributable to Waste Management, Inc.	<u>\$176</u>	<u>\$ 224</u>	<u>\$ 258</u>	<u>\$ (453)</u>	<u>\$ 205</u>

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2013

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Consolidated net income	\$ 168	\$ 222	\$ 235	\$ (449)	\$ 176
Equity in earnings of subsidiaries, net of taxes	(222)	(227)	—	449	—
Other adjustments	(16)	(8)	425	—	401
Net cash provided by (used in) operating activities	(70)	(13)	660	—	577
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(180)	—	(180)
Capital expenditures	—	—	(266)	—	(266)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	—	—	37	—	37
Net receipts from restricted trust and escrow accounts and other, net	—	—	(12)	—	(12)
Net cash provided by (used in) investing activities	—	—	(421)	—	(421)
Cash flows from financing activities:					
New borrowings	100	—	19	—	119
Debt repayments	—	—	(26)	—	(26)
Cash dividends	(170)	—	—	—	(170)
Exercise of common stock options	38	—	—	—	38
Distributions paid to noncontrolling interests and other	6	—	(8)	—	(2)
(Increase) decrease in intercompany and investments, net	181	13	(194)	—	—
Net cash provided by (used in) financing activities	155	13	(209)	—	(41)
Effect of exchange rate changes on cash and cash equivalents	—	—	(2)	—	(2)
Increase (decrease) in cash and cash equivalents	85	—	28	—	113
Cash and cash equivalents at beginning of period	60	—	134	—	194
Cash and cash equivalents at end of period	\$ 145	\$ —	\$ 162	\$ —	\$ 307

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Three Months Ended March 31, 2012

(Unaudited)

	WM	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Consolidated net income	\$ 171	\$ 224	\$ 241	\$ (453)	\$ 183
Equity in earnings of subsidiaries, net of taxes	(224)	(229)	—	453	—
Other adjustments	(2)	(8)	302	—	292
Net cash provided by (used in) operating activities	(55)	(13)	543	—	475
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(129)	—	(129)
Capital expenditures	—	—	(379)	—	(379)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	—	—	6	—	6
Net receipts from restricted trust and escrow accounts and other, net	—	—	(1)	—	(1)
Net cash provided by (used in) investing activities	—	—	(503)	—	(503)
Cash flows from financing activities:					
New borrowings	150	—	137	—	287
Debt repayments	(35)	—	(170)	—	(205)
Cash dividends	(164)	—	—	—	(164)
Exercise of common stock options	24	—	—	—	24
Distributions paid to noncontrolling interests and other	8	—	8	—	16
(Increase) decrease in intercompany and investments, net	44	13	(57)	—	—
Net cash provided by (used in) financing activities	27	13	(82)	—	(42)
Effect of exchange rate changes on cash and cash equivalents	—	—	1	—	1
Increase (decrease) in cash and cash equivalents	(28)	—	(41)	—	(69)
Cash and cash equivalents at beginning of period	119	—	139	—	258
Cash and cash equivalents at end of period	<u>\$ 91</u>	<u>\$ —</u>	<u>\$ 98</u>	<u>\$ —</u>	<u>\$ 189</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included under Item 1 and our Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In an effort to keep our stockholders and the public informed about our business, we may make "forward-looking statements." Forward-looking statements usually relate to future events and anticipated revenues, earnings, cash flows or other aspects of our operations or operating results. Forward-looking statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "forecast," "project," "estimate," "intend," and words of similar nature and generally include statements containing:

- projections about accounting and finances;
- plans and objectives for the future;
- projections or estimates about assumptions relating to our performance; or
- our opinions, views or beliefs about the effects of current or future events, circumstances or performance.

You should view these statements with caution. These statements are not guarantees of future performance, circumstances or events. They are based on the facts and circumstances known to us as of the date the statements are made. All aspects of our business are subject to uncertainties, risks and other influences, many of which we do not control. Any of these factors, either alone or taken together, could have a material adverse effect on us and could change whether any forward-looking statement ultimately turns out to be true. Additionally, we assume no obligation to update any forward-looking statement as a result of future events, circumstances or developments. The following discussion should be read together with the Condensed Consolidated Financial Statements and the notes thereto.

Some of the risks that we believe could affect our financial statements for 2013 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company include the following:

- competition may negatively affect our profitability or cash flows, our pricing strategy may have negative effects on volumes, and inability to execute our pricing strategy in order to retain and attract customers may negatively affect our average yield on collection and disposal business;
- we may fail in implementing our cost saving, optimization and growth initiatives and overall business strategy, which could adversely impact our financial performance and growth, and implementation of our initiatives and strategy may have associated negative consequences, such as fragmentation of efforts and oversight, increased indebtedness, asset impairments, business disruption, employee distraction, and regulatory issues;
- regulations may negatively impact our business by, among other things, restricting our operations, increasing costs of operations or requiring additional capital expenditures;
- possible changes in our estimates of costs for site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses;
- certain materials processed by our recycling operations are subject to significant commodity price fluctuations, as are methane gas, electricity and other energy-related products marketed and sold by our landfill gas recovery, waste-to-energy and independent power production plant operations; fluctuations in commodity prices may have negative effects on our operating results;
- increasing customer preference for alternatives to traditional disposal, government mandates requiring recycling and prohibiting disposal of certain types of waste, and overall reduction of waste generated could continue to have a negative effect on volumes of waste going to landfills and waste-to-energy facilities;

- developments in technology could trigger a fundamental change in the waste management industry, as waste streams are increasingly viewed as a resource, which may adversely impact volumes at our landfills and waste-to-energy facilities and our profitability;
- our existing and proposed service offerings to customers may require that we develop or license, and protect, new technologies; and our inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources;
- we are investing in emerging technologies to provide disposal alternatives, which may divert capital investment away from our traditional business operations; such emerging technologies may not perform as intended or may experience other difficulties or delays that prevent us from realizing a return on our investment;
- adverse publicity (whether or not justified) relating to activities by our operations, employees or agents could tarnish our reputation and reduce the value of our brand;
- there is a risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials; any substantial liability for environmental damage could have a material adverse effect on our financial condition and cash flows;
- weak economic conditions may negatively affect the volumes of waste generated;
- some of our customers, including governmental entities, have suffered financial difficulties that could affect our business and operating results, due to their credit risk and the impact of the municipal debt market on remarketing of our tax-exempt bonds;
- if we are unable to obtain and maintain permits needed to open, operate, and/or expand our facilities, our results of operations will be negatively impacted;
- fuel price increases or fuel supply shortages may increase our expenses and restrict our ability to operate;
- problems with the operation of current information technology or the development and deployment of new information systems could decrease our efficiencies and increase our costs;
- a cybersecurity incident could negatively impact our business and our relationships with customers;
- efforts by labor unions to organize our employees may increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have chosen to be represented by unions, which could lead to labor disruptions, including strikes and lock-outs, which could adversely affect our results of operations and cash flows;
- we could face significant liability for withdrawal from multiemployer pension plans;
- we are subject to operational and safety risks, including the risk of personal injury to employees and others;
- increased costs for financial assurance or the inadequacy of our insurance coverage could negatively impact our liquidity and increase our liabilities;
- possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;
- we may reduce or suspend capital expenditures, acquisition activity, dividend declarations or share repurchases if we suffer a significant reduction in cash flows;
- we may be unable to incur future indebtedness to support our growth and development plans on terms we deem acceptable or to refinance our debt obligations, including near-term maturities, on acceptable terms and higher interest rates and market conditions may increase our expense;
- climate change legislation, including possible limits on carbon emissions, may negatively impact our results of operations by increasing expenses;

- weather conditions and one-time special projects cause our results to fluctuate, and harsh weather or natural disasters may cause us to temporarily suspend operations; our stock price may be negatively impacted by interim variations in our results;
- we could be subject to significant fines and penalties, and our reputation could be adversely affected, if our business, or third parties with whom we have relationships, were to fail to comply with United States or foreign laws or regulations;
- we could fail to achieve the financial results anticipated from the construction of new international waste-to-energy facilities;
- negative outcomes of litigation or threatened litigation or governmental proceedings may increase our costs, limit our ability to conduct or expand our operations, or limit our ability to execute our business plans and strategies; and
- the adoption of new accounting standards or interpretations may cause fluctuations in reported quarterly results of operations or adversely impact our reported results of operations.

General

Our principal executive offices are located at 1001 Fannin Street, Suite 4000, Houston, Texas 77002. Our telephone number at that address is (713) 512-6200. Our website address is www.wm.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are all available, free of charge, on our website as soon as practicable after we file the reports with the SEC. Our stock is traded on the New York Stock Exchange under the symbol "WM."

We are North America's leading provider of comprehensive waste management services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our subsidiaries provide collection, transfer, recycling and resource recovery, and disposal services, and through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States.

Overview

Every day, Waste Management is helping industries, communities and individuals reduce, reuse and remove waste better through sound sustainability strategies. We are developing and implementing new ways to handle and extract value from waste, while maintaining our day-to-day focus on collecting and handling our customers' waste efficiently and responsibly. Our employees are committed to delivering environmental performance — our mission to maximize resource value, while minimizing environmental impact, so that both our economy and our environment can thrive. Drawing on our resources and experience, we actively pursue projects and initiatives that benefit the waste industry, the customers and communities we serve and the environment.

The Company also remains committed to providing long-term value to our stockholders by successfully executing on our strategic goals of knowing and servicing the customer better than anyone else, extracting more value from the materials we handle, and optimizing our business. In pursuit of these long-term goals, we have sharpened our focus on the following key priorities:

- Pursue revenue growth through customer-focused segmentation, pricing discipline and strategic acquisitions;
- Continually emphasize cost control and investment in technology and systems that enhance the efficiency of our operations; and
- Invest in emerging technologies that offer alternatives to traditional disposal and generate additional value from the waste streams we manage.

We believe that execution of our strategy through these key priorities will drive continued growth and leadership in a dynamic industry, as customers increasingly seek non-traditional waste management solutions.

Highlights of our financial results for the current quarter include:

- Revenues of \$3,336 million compared with \$3,295 million in the first quarter of 2012, an increase of \$41 million, or 1.2%. This increase in revenues is primarily attributable to acquisitions, driven in large part by our acquisition of Greenstar, and positive revenue growth from yield on our collection and disposal operations.
- Operating expenses of \$2,209 million, or 66.2% of revenues, compared with \$2,166 million, or 65.7% of revenues, in the first quarter of 2012. This increase of \$43 million is largely due to our acquisition of Greenstar, which primarily increased cost of goods sold and to a lesser extent, labor and related benefits. The increases attributable to Greenstar were offset by related revenue increases noted above.
- Selling, general and administrative expenses decreased by \$17 million, or 4.2%, from \$407 million in the first quarter of 2012 to \$390 million in the first quarter of 2013, driven in large part by our restructuring efforts and cost control initiatives;
- Income from operations of \$402 million, or 12.1% of revenues, compared with \$401 million, or 12.2% of revenues, in the first quarter of 2012; and
- Net income attributable to Waste Management, Inc. of \$168 million, or \$0.36 per diluted share, as compared with \$171 million, or \$0.37 per diluted share in the first quarter of 2012.

The comparability of our diluted earnings per share has been affected by the following items that occurred in the first quarter of 2013:

- The recognition of pre-tax impairment charges aggregating \$15 million attributable to investments in waste diversion technologies and goodwill related to certain of our operations. These items had a negative impact of \$0.03 on our diluted earnings per share; and
- The recognition of \$8 million of pre-tax restructuring charges related to our acquisition of Greenstar and our July 2012 restructuring. These items had a negative impact of \$0.01 on our diluted earnings per share.

Free Cash Flow

As is our practice, we are presenting free cash flow, which is a non-GAAP measure of liquidity, in our disclosures because we use this measure in the evaluation and management of our business. We define free cash flow as net cash provided by operating activities, less capital expenditures, plus proceeds from divestitures of businesses (net of cash divested) and other sales of assets. We believe it is indicative of our ability to pay our quarterly dividends, repurchase common stock, fund acquisitions and other investments and, in the absence of refinancings, to repay our debt obligations. Free cash flow is not intended to replace "Net cash provided by operating activities," which is the most comparable GAAP measure. However, we believe free cash flow gives investors useful insight into how we view our liquidity. Nevertheless, the use of free cash flow as a liquidity measure has material limitations because it excludes certain expenditures that are required or that we have committed to, such as declared dividend payments and debt service requirements.

Our calculation of free cash flow and reconciliation to "Net cash provided by operating activities," is shown in the table below (in millions), and may not be the same as similarly-titled measures presented by other companies:

	Three Months Ended March 31,	
	2013	2012
Net cash provided by operating activities	\$ 577	\$ 475
Capital expenditures	(266)	(379)
Proceeds from divestitures of businesses (net of cash divested) and other sales of assets	37	6
Free cash flow	<u>\$ 348</u>	<u>\$ 102</u>

When comparing our cash flow from operating activities for the reported periods, the change is primarily attributable to payments for our annual incentive plan which are paid in the first quarter of the year on account of prior year performance. Our cash flow from operations was favorably impacted by approximately \$86 million on a year-over-year basis as the annual incentive plan payments made in the first quarter of 2013 were significantly lower than the payments made in the first quarter of 2012.

The decrease in capital expenditures when comparing the first quarter of 2013 with the prior year period can generally be attributed to increased focus on capital spending management and the impact of timing differences associated with cash payments for the previous years' fourth quarter capital spending.

Acquisition of Greenstar

On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC ("Greenstar"). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018; a portion of this consideration is contingent based on changes in certain recycling indexes. This additional consideration has a preliminary estimated fair value of \$36 million. Greenstar is an operator of recycling and resource recovery facilities. This acquisition will provide the Company's customers with greater access to recycling solutions by supplementing the Company's extensive nationwide recycling network with the operations of one of the nation's largest private recyclers. For the time period after the acquisition included in the three-month period ended March 31, 2013, Greenstar recognized revenues of \$25 million and net losses of \$3 million, which are included in our Condensed Consolidated Statement of Operations.

Adoption of New Accounting Pronouncement

Comprehensive Income — In February 2013, the Financial Accounting Standards Board issued amended authoritative guidance associated with comprehensive income, which requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income by component. Additionally, companies are required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendment to authoritative guidance associated with comprehensive income was effective for the Company on January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements. We have presented the information required by this amendment in Note 12 to the Condensed Consolidated Financial Statements.

Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Results of Operations

Operating Revenues

Through the third quarter of 2012, the operations of our local subsidiaries were primarily organized under our Eastern, Midwest, Southern, Western and Wheelabrator operating Groups. In July 2012, we announced a reorganization of our operations, designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations. Principal organizational changes included removing the management layer of our four geographic Groups, each of which previously constituted a reportable segment, and consolidating and reducing the number of geographic Areas from 22 to 17.

Following our reorganization, our senior management now evaluates, oversees and manages the financial performance of our Solid Waste business subsidiaries through these 17 Areas. Our reportable segments have been realigned to conform with our new organizational structure. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants.

We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, including WM Sustainability Business Services (which includes our acquired Oakleaf operations), recycling brokerage services, electronic recycling services, in-plant services, landfill gas-to-energy services, integrated medical waste services, and expanded service offerings and solutions. Part of our expansion of services includes offering portable self-storage services and fluorescent bulb and universal waste mail-back through our LampTracker® program. In addition, we have made investments that involve the acquisition and development of interests in oil and gas producing properties. These operations are presented as “Other” in the table below. Shown below (in millions) is the contribution to revenues during each period:

	Three Months Ended March 31,	
	2013	2012
Solid Waste	\$3,185	\$3,138
Wheelabrator	205	207
Other	534	468
Intercompany	(588)	(518)
Total	<u>\$3,336</u>	<u>\$3,295</u>

The mix of operating revenues from our major lines of business is reflected in the table below (in millions):

	Three Months Ended March 31,	
	2013	2012
Commercial	\$ 840	\$ 865
Residential	645	638
Industrial	512	502
Other	58	68
Total collection	<u>2,055</u>	<u>2,073</u>
Landfill	628	615
Transfer	300	298
Wheelabrator	205	207
Recycling	358	345
Other	378	275
Intercompany	(588)	(518)
Total	<u>\$3,336</u>	<u>\$3,295</u>

The following table provides details associated with the period-to-period change in revenues (dollars in millions) along with an explanation of the significant components of the current period changes:

	Period-to-Period Change for the Three Months Ended March 31, 2013 vs. 2012	
	Amount	As a % of Total Company(a)
Average yield(b)	\$ 14	0.4%
Volume	(14)	(0.4)
Internal revenue growth	—	—
Acquisitions	44	1.3
Divestitures	(1)	—
Foreign currency translation	(2)	(0.1)
Total	\$ 41	1.2%

(a) Calculated by dividing the amount of current period increase or decrease by the prior period's total Company revenue adjusted to exclude the impacts of divestitures for the current period (\$3,294 million).

(b) The amounts reported herein represent the changes in our revenue attributable to average yield for the total Company. We analyze the changes in average yield in terms of related business revenues in order to differentiate the changes in yield attributable to our pricing strategies from the changes that are caused by market-driven price changes in commodities. The following table summarizes changes in revenues from average yield on a related-business basis (dollars in millions):

	Period-to-Period Change for the Three Months Ended March 31, 2013 vs. 2012	
	Amount	As a % of Related Business(i)
Average yield:		
Collection, landfill and transfer	\$ 42	1.6%
Waste-to-energy disposal(ii)	(5)	(4.6)
Collection and disposal(ii)	37	1.4
Recycling commodities	(40)	(11.5)
Electricity(ii)	6	9.7
Fuel surcharges and mandated fees	11	7.2
Total	\$ 14	0.4%

- (i) Calculated by dividing the increase or decrease for the current period by the prior period's related business revenue, adjusted to exclude the impacts of divestitures for the current period. The table below summarizes the related business revenues for the three months ended March 31, 2012 adjusted to exclude the impacts of divestitures (in millions):

	<u>Denominator</u> <u>Three Months</u> <u>Ended</u> <u>March 31</u>
Related business revenues:	
Collection, landfill and transfer	\$ 2,622
Waste-to-energy disposal	109
Collection and disposal	2,731
Recycling commodities	349
Electricity	62
Fuel surcharges and mandated fees	152
Total Company	<u>\$ 3,294</u>

- (ii) Average revenue growth from yield for "Collection and disposal" excludes all electricity-related revenues generated by our Wheelabrator business and our landfill gas-to-energy operations, which are reported as "Electricity" revenues.

Our revenues increased \$41 million, or 1.2%, for the three months ended March 31, 2013 as compared with the three months ended March 31, 2012. The year-over-year change in revenues has been driven by (i) revenues from acquisitions of \$44 million, \$25 million of which is attributable to our acquisition of Greenstar this quarter; (ii) revenue growth from average yield on our collection and disposal operations; (iii) higher revenues provided by our fuel surcharge program; and (iv) higher electricity prices, which correlate in part with natural gas prices and cause fluctuations in the rates we receive for electricity at our merchant waste-to-energy facilities. Offsetting these revenue increases were lower recyclable commodity prices, revenue declines due to lower volumes, and foreign currency translation, which affects revenues from our Canadian operations.

The following provides further details associated with our period-to-period change in revenues.

Average yield

Collection and disposal average yield — This measure reflects the effect on our revenue from the pricing activities of our collection, transfer, landfill and waste-to-energy disposal operations, exclusive of volume changes. Revenue growth from collection and disposal average yield includes not only base rate changes and environmental and service fee increases, but also (i) certain average price changes related to the overall mix of services, which are due to both the types of services provided and the geographic locations where our services are provided; (ii) changes in average price from new and lost business; and (iii) price decreases to retain customers.

Revenue growth from yield in our collection, landfill and transfer lines of business was \$42 million, or 1.6%, for the three months ended March 31, 2013 as compared with the prior year period driven primarily by our collection operations with growth of \$41 million. We experienced growth in all three of our principal collection lines of business. Our industrial line of business experienced positive revenue growth from yield of 3.5%. Additionally, we are seeing improving yield trends in our commercial and residential lines of business. We achieved 1.8% revenue growth from yield in our commercial line of business driven primarily by our focus on price increases while limiting our price concessions. Furthermore, we experienced 1.9% revenue growth from yield in our residential line of business, which is a significant improvement from 2012. Our effort to increase yield is a challenge due to several factors, including a very competitive environment and the industry trend to bundle complementary services, such as recycling services in the residential line of business. Finally, yield growth from our landfill and transfer station operations increased slightly for the quarter. Improving yield in our landfill business has proved to be a challenge, due in part to excess disposal capacity that exists in many of the markets in which we own or operate landfills.

Revenue decline from yield in our waste-to-energy disposal line of business was \$5 million primarily due to the expiration and renegotiation of two long-term waste-to-energy disposal contracts in South Florida. The interim agreements for these two contracts will expire in July 2013. We expect the renegotiated contracts will continue to have a negative impact on our revenue growth from yield in the second half of 2013.

Revenues from our environmental fee, which are included in average revenue growth from yield on collection and disposal, were \$84 million for each of the three-month periods ended March 31, 2013 and 2012.

Recycling commodities — Decreases in recycling commodity prices resulted in a decline in revenues of \$40 million, with an estimated negative impact on income from operations of approximately \$12 million for the quarter ended March 31, 2013. Our year-over-year commodity prices declined about 12% as compared with the same prior year period.

Fuel surcharges and mandated fees — These revenues, which are predominantly generated by our fuel surcharge program, increased by \$9 million for the quarter ended March 31, 2013. These increases are primarily attributable to fluctuations in the national average prices for diesel fuel on which our surcharge is based. Additionally, the fuel surcharge revenue increase was aided by an increase in the factor applied to diesel fuel prices in order to calculate the surcharge. The mandated fees included in this line item are primarily related to the pass-through of fees and taxes assessed by various state, county and municipal governmental agencies at our landfills and transfer stations.

Volume — Changes in our volume caused our revenue to decrease \$14 million, or 0.4%, over the comparable prior year period. We continue to experience revenue declines in our collection business, principally due to lower volumes in our commercial collection, and to a lesser extent, our residential line of business, which we attribute to the effects of pricing, competition and diversion of waste by customers. Partially offsetting these revenue decreases were revenue growth from higher landfill volumes as well as revenue increases from higher volumes in our recycling business primarily attributable to increases in our brokerage business. Finally, we noted there were two less workdays in the current period as compared with the prior year period. We estimate that if the number of workdays was the same as in the prior year quarter, our revenue growth from volumes would have improved and the volume growth would be inline with our expectation of 0.5% to 1.0% for the year.

Acquisitions — Revenues increased \$44 million for the three months ended March 31, 2013 as compared with the prior year period due to acquisitions. This increase was principally associated with our acquisition of Greenstar on January 31, 2013, which is reported in our “Recycling” line of business, demonstrating our focus on investments that allow us to extract value from the waste stream.

Operating Expenses

Our operating expenses increased by \$43 million, or 2.0%, for the three months ended March 31, 2013 as compared with the three months ended March 31, 2012. Our operating expenses as a percentage of revenues increased to 66.2% in the current period from 65.7% in the prior year period. The increases can largely be attributed to the following:

• *Acquisitions and growth initiatives* — On January 31, 2013 we acquired Greenstar, LLC, an operator of recycling and resource recovery facilities. The acquisition increased operating expenses by \$24 million in the current quarter, primarily increasing cost of goods sold and, to a lesser extent, labor and related benefits and other categories. These cost increases accounted for 56% of our total \$43 million increase in operating expenses. The \$24 million increase in operating expenses associated with Greenstar was offset by increased revenues resulting from the acquisition.

The following table summarizes the major components of our operating expenses, which include the impact of foreign currency translation, for the three-month periods ended March 31 (dollars in millions):

	Three Months Ended March 31,		Period-to- Period Change	
	2013	2012		
Labor and related benefits	\$ 607	\$ 593	\$ 14	2.4%
Transfer and disposal costs	225	212	13	6.1
Maintenance and repairs	302	302	—	—
Subcontractor costs	279	276	3	1.1
Cost of goods sold	238	232	6	2.6
Fuel	148	162	(14)	(8.6)
Disposal and franchise fees and taxes	149	145	4	2.8
Landfill operating costs	58	55	3	5.5
Risk management	62	61	1	1.6
Other	141	128	13	10.2
	<u>\$2,209</u>	<u>\$2,166</u>	<u>\$ 43</u>	<u>2.0%</u>

Other significant changes in our operating expenses are discussed below.

- *Labor and related benefits* — The increase was largely due to (i) increased contract labor principally attributed to the recycling and to a lesser extent residential lines of business; (ii) lower bonus expense in the prior year period because our anticipated full year performance against targets established for our 2012 annual incentive plan was not as strong compared with our current full year expectations in 2013; and (iii) the Greenstar acquisition. These increases were offset in part by lower year-over-year costs resulting from fewer workdays in the current period.
- *Maintenance and repairs* — Our expense remained flat in spite of decreases which were primarily due to differences in the timing and scope of planned maintenance projects at our waste-to-energy facilities. These decreases were offset by higher costs in our Areas, due principally to increased fleet maintenance costs. Our fleet maintenance costs include services provided by third-parties, tires, parts and internal shop labor costs.
- *Subcontractor costs* — The current quarter increase in subcontractor costs was primarily driven by higher volumes in several of our Areas. These increases were offset to a certain extent by higher special project volume in the prior year through our WM Sustainability Business Services.
- *Cost of goods sold* — The increase in cost of goods sold is driven primarily by higher customer rebates resulting from volume improvement in our recycling commodity business, principally in our brokerage business. The volume improvement is driven by the Greenstar acquisition, our recycling brokerage business, and our material recovery facilities. Lower market prices for recyclable commodities in the current period as compared with the same quarter last year partially offset the increase.
- *Fuel* — The decrease in fuel expense when compared to the prior year period was due to (i) a retroactive CNG fuel excise tax credit recognized in the current period; (ii) lower fuel purchases due to reduced collection volumes; and (iii) lower costs associated with converting our fleet to CNG vehicles. These decreases were offset in part by slightly higher average fuel costs. Our fuel surcharges covered 100% of current period and 92% of prior year period recoverable fuel costs.
- *Other* — Increased other costs were (i) telecommunications, driven by our initiative to equip our fleet with onboard computers; (ii) rentals; (iii) property taxes; (iv) utilities; and (v) licenses, fees & permits.

Selling, General and Administrative

Our selling, general and administrative expenses decreased by \$17 million, or 4.2% when comparing the three months ended March 31, 2013 with the same period of 2012. Our selling, general and administrative expenses as a percentage of revenues decreased to 11.7% in the current period from 12.4% in the prior year

period. The overall decrease is primarily related to costs savings, principally in labor and related benefits, associated with the July 2012 reorganization of our operations designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations.

The following table summarizes the major components of our selling, general and administrative expenses for the three-month periods ended March 31 (dollars in millions):

	Three Months Ended March 31,		Period-to-Period Change	
	2013	2012		
Labor and related benefits	\$238	\$245	\$ (7)	(2.9)%
Professional fees	32	40	(8)	(20.0)
Provision for bad debts	20	15	5	33.3
Other	100	107	(7)	(6.5)
	<u>\$390</u>	<u>\$407</u>	<u>\$(17)</u>	<u>(4.2)%</u>

Labor and related benefits — In 2013, our labor and related benefits expenses decreased primarily due to savings realized from our recent reorganization. Other factors affecting the change in labor and related benefits include:

- Lower payroll tax expense related to the lower annual incentive plan payout to participants in 2013 as compared to 2012.
- Higher incentive compensation charges in 2013 when compared with 2012 due to expectations of achieving a greater percentage of full year targets.
- Higher non-cash compensation charges attributable to our long-term incentive plan due to the recognition of expense for the payout of performance share units granted in 2010, which was approved in the first quarter of 2013. Expense associated with these awards had been reversed in the second quarter of 2012 when it no longer appeared probable that threshold performance would be achieved.

Professional fees — In 2013, our professional fees decreased when compared to the first quarter of 2012, primarily due to higher consulting fees incurred during 2012 in connection with the start-up phase of our cost savings programs.

Provision for bad debts — Our provision for bad debts increased in 2013, primarily as a result of collection issues we are experiencing in our Puerto Rico operations.

Other — During the current year, controllable costs associated with travel and entertainment, dues and subscriptions, and seminars have declined primarily as a result of our recent reorganization and continued focus on cost-control initiatives.

Depreciation and Amortization

The following table summarizes the components of our depreciation and amortization expense for the three-month periods ended March 31 (dollars in millions):

	Three Months Ended March 31,		Period-to-Period Change	
	2013	2012		
Depreciation of tangible property and equipment	\$209	\$207	\$2	1.0%
Amortization of landfill airspace	96	93	3	3.2
Amortization of intangible assets	18	17	1	5.9
	<u>\$323</u>	<u>\$317</u>	<u>\$6</u>	<u>1.9%</u>

Restructuring

During the three months ended March 31, 2013, we recognized a total of \$8 million of pre-tax restructuring charges, of which \$4 million were related to employee severance and benefit costs, including costs associated with our acquisition of Greenstar, and our 2012 restructuring. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

During the three months ended March 31, 2012, we recognized employee severance and benefit restructuring charges, including \$2 million associated with the reorganization of Oakleaf and \$2 million associated with certain other actions taken by the Company.

(Income) Expense from Divestitures, Asset Impairments and Unusual Items

During the first quarter of 2013, we recognized gains on divestitures of \$6 million, primarily attributable to the sale of a transfer station in our Greater Mid-Atlantic Area. These gains were offset by losses on divestitures of \$6 million related to investments in oil and gas producing properties. Additionally, we recognized \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our "Other" operations in Note 8 to the Condensed Consolidated Financial Statements.

Income from Operations

The following table summarizes income from operations for the three-month periods ended March 31 (dollars in millions):

	Three Months Ended March 31,		Period-to-Period Change	
	2013	2012		
Solid Waste	\$ 614	\$ 624	\$(10)	(1.6)%
Wheelabrator	9	5	4	80.0
Other	(41)	(35)	(6)	17.1
Corporate and Other	(180)	(193)	13	(6.7)
Total	<u>\$ 402</u>	<u>\$ 401</u>	<u>\$ 1</u>	<u>0.2%</u>

Solid Waste — The most significant items affecting the results of operations of our Solid Waste business during the three months ended March 31, 2013 as compared with the prior year period are summarized below:

- Our base business excluding recycling benefited from internal revenue growth, principally in our collection line of business, as well as from increased fuel recovery. These favorable variances were partially offset by increased repair & maintenance costs as well as higher transfer and disposal costs.
- Our recycling business contributed unfavorably compared the prior year period principally driven by: (i) lower market prices for recyclable commodities; (ii) start-up costs at certain of our new recycling facilities; (iii) lower volumes at our previously existing recycling facilities and (iv) operating losses related to the acquired operations of Greenstar.

Other items affecting the reported periods include:

- benefits realized as result of our July 2012 restructuring and ongoing cost containment efforts;
- a retroactive CNG excise fuel tax credit decreased overall fuel expenses;
- increase in bad debt expense due to collection issues in Puerto Rico; and
- reclassification of employees from Corporate to Solid Waste unfavorably impacted income from operations.

Significant items affecting the comparability of the remaining components of our results of operations for the three months ended March 31, 2013 are summarized below:

Wheelabrator — The increase in income from operations of our Wheelabrator business for the period ended March 31, 2013 as compared to 2012 was largely driven by: (i) higher energy prices; (ii) decreased maintenance and repair costs, primarily due to differences in the timing and scope of planned maintenance activities; and (iii) the favorable impact on depreciation from the extension of a lease agreement. These favorable variances were partially offset by: (i) lower revenues due to the expiration of a long-term disposal contract in South Florida and (ii) a one time revenue adjustment recorded during the first quarter of 2012 related to a power purchase agreement.

Other — Significant items affecting the comparability of results for the periods presented include:

• losses from continued efforts to integrate our strategic accounts business with Oakleaf and higher administrative and restructuring costs associated with the acquired operations of Greenstar;

• reclassification of employees from Corporate to Solid Waste favorably impacted income from operations;

• benefits realized as result of our July 2012 restructuring and ongoing cost containment efforts; and

• improved results from our growth initiatives, which include our organics and healthcare businesses.

Corporate and Other — Significant items affecting the comparability of expenses for the periods presented include:

• benefits realized as result of our July 2012 restructuring and ongoing cost containment efforts;

• decreased professional fees primarily due to higher consulting fees incurred during 2012 in connection with the start-up phase of our cost savings programs;

• reclassification of employees from Corporate to Solid Waste favorably impacted income from operations; and

• higher non-cash compensation expense attributable to our long-term incentive plan.

Interest Expense

Our interest expense was \$122 million during each of the three-month periods ended March 31, 2013 and 2012. Our interest expense is flat in spite of a slight increase in our average debt balances. This is primarily attributable to interest expense reductions that have been achieved by remarketing tax-exempt debt at lower rates and issuing new debt at lower fixed interest rates than debt repaid upon scheduled maturities.

Equity in Net Losses of Unconsolidated Entities

Our “Equity in net losses of unconsolidated entities” is primarily related to our noncontrolling interests in two limited liability companies established to invest in and manage low-income housing properties and a refined coal facility, as well as noncontrolling investments made to support our strategic initiatives and unconsolidated trusts for final capping, closure, post-closure or environmental obligations. The tax impacts realized as a result of our investments in low-income housing properties and the refined coal facility are discussed below in *Provision for Income Taxes*. Refer to Notes 5 and 14 to the Condensed Consolidated Financial Statements for more information related to these investments.

Other, net

We recognized other, net expense of \$11 million and \$1 million for the three months ended March 31, 2013 and 2012, respectively. The increase in expense during 2013 was primarily attributable to impairment charges of \$11 million relating to other-than-temporary declines in the value of two investments accounted for under the cost method.

Provision for Income Taxes

We recorded a provision for income taxes of \$86 million during the first quarter of 2013, representing an effective income tax rate of 32.8%, compared with a provision for income taxes of \$89 million during the first quarter of 2012, representing an effective income tax rate of 32.8%.

Our investments in low-income housing properties and the refined coal facility reduced our provision for income taxes by \$10 million for each of the three-month periods ended March 31, 2013 and 2012. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

Noncontrolling Interests

Net income attributable to noncontrolling interests was \$8 million and \$12 million for the three months ended March 31, 2013 and 2012, respectively. These amounts are principally related to third parties' equity interests in two limited liability companies that own three waste-to-energy facilities operated by our Wheelabrator business. Refer to Note 14 to the Condensed Consolidated Financial Statements for information related to the consolidation of these variable interest entities.

Liquidity and Capital Resources

Summary of Cash and Cash Equivalents, Restricted Trust and Escrow Accounts and Debt Obligations

The following is a summary of our cash and cash equivalents, restricted trust and escrow accounts and debt balances as of March 31, 2013 and December 31, 2012 (dollars in millions):

	March 31, 2013	December 31, 2012
Cash and cash equivalents	<u>\$ 307</u>	<u>\$ 194</u>
Restricted trust and escrow accounts:		
Final capping, closure, post-closure and environmental remediation funds	\$ 123	\$ 122
Tax-exempt bond funds	2	1
Other	15	15
Total restricted trust and escrow accounts	<u>\$ 140</u>	<u>\$ 138</u>
Debt:		
Current portion	\$ 964	\$ 743
Long-term portion	9,045	9,173
Total debt	<u>\$ 10,009</u>	<u>\$ 9,916</u>
Increase in carrying value of debt due to hedge accounting for interest rate swaps	<u>\$ 74</u>	<u>\$ 79</u>

As of March 31, 2013, we had (i) \$1,159 million of debt maturing within the next 12 months, including \$500 million of borrowings outstanding under the revolving credit facility, U.S.\$73 million of advances outstanding under our Canadian credit facility, \$350 million of 5.0% senior notes that mature in March 2014 and \$161 million of tax-exempt bonds and (ii) \$485 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance a portion of this debt on a long-term basis as of March 31, 2013, we have classified \$680 million of this debt as long-term and the remaining \$964 million as current obligations.

Summary of Cash Flow Activity

The following is a summary of our cash flows for the three-month periods ended March 31 (in millions):

	Three Months Ended	
	2013	2012
Net cash provided by operating activities	\$ 577	\$ 475
Net cash used in investing activities	\$(421)	\$(503)
Net cash used in financing activities	\$ (41)	\$ (42)

Net Cash Provided by Operating Activities — We generated \$577 million of cash flows from operating activities during the three-month period ended March 31, 2013, compared with \$475 million during the three-month period ended March 31, 2012. The \$102 million increase was primarily driven by the items described below:

• *Decrease in bonus payments* — Payments for our annual incentive plan are paid in the first quarter of the year based on prior year performance. Our cash flow from operating activities was favorably impacted by approximately \$86 million on a year-over-year basis as the annual incentive plan payments made in the first quarter of 2013 were significantly lower than the payments made in the first quarter of 2012.

• *Increase in earnings* — Our income from operations, excluding depreciation and amortization, increased by \$7 million, on a year-over-year basis.

• *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operating activities was favorably impacted on a year-over-year basis by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable changes, which are affected by both cost changes and timing of payments.

Net Cash Used in Investing Activities — The most significant items included in our investing cash flows for the three-month periods ended March 31, 2013 and 2012 are summarized below:

• *Capital expenditures* — We used \$266 million during the first quarter of 2013 for capital expenditures compared with \$379 million in the first quarter of 2012, a decrease of \$113 million. The decrease can generally be attributed to increased focus on capital spending management and the impact of timing differences associated with cash payments for the previous years' fourth quarter capital spending. Approximately \$171 million of our fourth quarter 2012 spending was paid in cash in the first quarter of 2013 compared with approximately \$244 million of our fourth quarter 2011 spending that was paid in the first quarter of 2012.

• *Acquisitions* — Our spending on acquisitions was \$180 million in the first quarter of 2013 compared with \$129 million in the first quarter of 2012. In 2013, our acquisitions consisted primarily of the recycling operations of Greenstar, for which we paid \$170 million. In 2012, our acquisitions consisted primarily of interests in oil and gas producing properties through two transactions, for which we paid \$94 million.

Net Cash Used in Financing Activities — During the first quarter of 2013, net cash used in financing activities was \$41 million, compared with \$42 million during the comparable prior year period. The most significant items affecting the comparison of our financing cash flows for the three-month periods ended March 31, 2013 and 2012 are summarized below:

• *Net debt borrowings* — The following summarizes our cash borrowings and debt repayments during each period (in millions):

	Three Months Ended March 31,	
	2013	2012
Borrowings:		
Revolving credit facility(a)	\$100	\$ 150
Canadian credit facility(a)	—	116
Capital leases and other debt	19	21
	<u>\$ 119</u>	<u>\$ 287</u>
Repayments:		
Revolving credit facility(a)	\$ —	\$ —
Canadian credit facility(a)	—	(141)
Tax-exempt bonds	—	(35)
Capital leases and other debt	(26)	(29)
	<u>\$ (26)</u>	<u>\$ (205)</u>
<i>Net borrowings</i>	<u>\$ 93</u>	<u>\$ 82</u>

(a) Due to the short-term maturities of the borrowings under these credit facilities, we have reported certain of these cash flows on a net basis.

Refer to Note 3 to the Condensed Consolidated Financial Statements for additional information related to our debt borrowings and repayments.

• *Dividend payments* — We paid \$170 million in cash dividends in the first quarter of 2013 compared with \$164 million in the first quarter of 2012. The increase in dividend payments is due to our quarterly per share dividend declared increasing from \$0.355 in 2012 to \$0.365 in 2013.

Liquidity Impacts of Income Tax Items

Recent Legislation — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and includes an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 can be depreciated immediately. The acceleration of deductions on capital expenditures resulting from the bonus depreciation provisions has no impact on our effective tax rate, but reduces our cash taxes in the periods in which the deductions are taken.

The acceleration of depreciation deductions related to qualifying property additions in 2012 decreased our full year 2012 cash taxes by approximately \$90 million and, based on our current forecast of 2013 capital expenditures, we estimate a similar reduction in our full year 2013 cash taxes of approximately \$90 million related to qualifying property additions in 2013. However, taking accelerated deductions results in increased cash taxes in subsequent periods when the deductions for these capital expenditures would have otherwise been taken. On a net basis, after taking into account the effect of all applicable years' bonus depreciation programs, the deductions taken in previous years from acceleration programs more than offset the benefits received in 2012 and expected to be received in 2013.

Uncertain Tax Positions — We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are primarily included as a component of long-term “Other liabilities” in our Condensed Consolidated Balance Sheet because the Company generally does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$6 million of liabilities for uncertain tax positions, including accrued interest, and \$2 million of related deferred tax assets may be reversed within the next 12 months. The anticipated reversals are related to state tax items, none of which are material, and are expected to result from audit settlements or the expiration of the applicable statute of limitations period.

Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 14 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the three months ended March 31, 2013, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

Seasonal Trends

Our operating revenues tend to be somewhat higher in summer months, primarily due to higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends.

Additionally, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins. Certain weather conditions, including severe winter storms, may result in the temporary suspension of our operations, which can significantly affect the operating results of the affected regions. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Inflation

While inflationary increases in costs, including the cost of diesel fuel, have affected our operating margins in recent years, we believe that inflation generally has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, a portion of our collection revenues are generated under long-term agreements with price adjustments based on various indices intended to measure inflation. Additionally, management’s estimates associated with inflation have had, and will continue to have, an impact on our accounting for landfill and environmental remediation liabilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about market risks as of March 31, 2013, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures.

Effectiveness of Controls and Procedures

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed,

summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of March 31, 2013 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Controls over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended March 31, 2013. We determined that there were no changes in our internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

Item 1. *Legal Proceedings.*

Information regarding our legal proceedings can be found under the “Environmental Matters” and “Litigation” sections of Note 7, *Commitments and Contingencies*, to the Condensed Consolidated Financial Statements.

Item 1A. *Risk Factors.*

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 in response to Item 1A to Part I of Form 10-K.

Item 4. *Mine Safety Disclosures.*

Information concerning mine safety and other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this quarterly report.

Item 6. *Exhibits.*

<u>Exhibit No.</u>	<u>Description</u>
10.1	— Form of 2013 PSU Award Agreement with ROIC Performance Measure [incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed March 13, 2013].
10.2	— Form of 2013 PSU Award Agreement with TSR Performance Measure [incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed March 13, 2013].
10.3	— Form of 2013 Stock Option Award Agreement [incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed March 13, 2013].
31.1	— Certification Pursuant to Rules 13a—14(a) and 15d—14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer.
31.2	— Certification Pursuant to Rules 13a—14(a) and 15d—14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.
32.1	— Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer.
32.2	— Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.
95	— Mine Safety Disclosures.
101.INS	— XBRL Instance Document.
101.SCH	— XBRL Taxonomy Extension Schema Document.
101.CAL	— XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	— XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	— XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	— XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

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

WASTE MANAGEMENT, INC.

By: /s/ JAMES C. FISH, JR.
James C. Fish, Jr.
*Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)*

WASTE MANAGEMENT, INC.

By: /s/ DON P. CARPENTER
Don P. Carpenter
*Vice President and
Chief Accounting Officer
(Principal Accounting Officer)*

Date: April 24, 2013

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David P. Steiner, certify that:

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

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

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

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID P. STEINER

David P. Steiner

President and Chief Executive Officer

Date: April 24, 2013

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James C. Fish, Jr., certify that:

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

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

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

iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.
*Executive Vice President and
Chief Financial Officer*

Date: April 24, 2013

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Steiner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID P. STEINER

David P. Steiner

President and Chief Executive Officer

April 24, 2013

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Waste Management, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Fish, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JAMES C. FISH, JR.

James C. Fish, Jr.

*Executive Vice President and
Chief Financial Officer*

April 24, 2013

Mine Safety Disclosures

This exhibit contains certain specified disclosures regarding mine safety required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K. Certain of our subsidiaries have permits for surface mining operations that are incidental to excavation work for landfill development.

During the three-month period ended March 31, 2013, we did not receive any of the following: (a) a citation from the U.S. Mine Safety and Health Administration (“MSHA”) for a violation of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Federal Mine Safety and Health Act of 1977 (the “Mine Safety Act”); (b) an order issued under section 104(b) of the Mine Safety Act; (c) a citation or order for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Safety Act; (d) a flagrant violation under section 110(b)(2) of the Mine Safety Act; (e) an imminent danger order under section 107(a) of the Mine Safety Act; or (f) a proposed assessment from the MSHA.

In addition, during the three-month period ended March 31, 2013, we had no mining-related fatalities, we had no pending legal actions before the Federal Mine Safety and Health Review Commission involving a coal or other mine, and we did not receive any written notice from the MSHA involving a pattern of violations, or the potential to have such a pattern, of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Safety Act.