SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☑	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the Quarterly Period Ended June 30, 2004
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number 1-12154

Waste Management, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**73-1309529**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

1001 Fannin

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

(713) 512-6200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934.) Yes ☑ No o

The number of shares of Common Stock, $0.01 par value, of the registrant outstanding at July 26, 2004 was 579,867,019 (excluding treasury shares of 50,415,442).

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PART I.

Item 1. ***Financial Statements.***

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share and Par Value Amounts)

ASSETS

	June 30, 2004	December 31, 2003
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 553	$ 217
Accounts receivable, net of allowance for doubtful accounts of $56 and $58, respectively	1,592	1,494
Notes and other receivables	271	317
Parts and supplies	82	82
Deferred income taxes	415	421
Prepaid expenses and other assets	208	139
Total current assets	3,121	2,670
Property and equipment, net of accumulated depreciation and amortization of $10,046 and $9,553, respectively	11,325	11,411
Goodwill	5,314	5,266
Other intangible assets, net	162	156
Other assets	1,308	1,235
Total assets	$21,230	$20,738

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2004	December 31, 2003
Current liabilities:		
Accounts payable	$ 677	$ 721
Accrued liabilities	1,685	1,750
Deferred revenues	442	429
Current portion of long-term debt	775	514
Total current liabilities	3,579	3,414
Long-term debt, less current portion	7,947	7,997
Deferred income taxes	1,727	1,663
Landfill and environmental remediation liabilities	1,161	1,124
Other liabilities	790	727
Total liabilities	15,204	14,925
Minority interest in subsidiaries and variable interest entities	268	250
Commitments and contingencies		
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	4,486	4,501
Retained earnings	2,647	2,497
Accumulated other comprehensive loss	(78)	(53)
Restricted stock unearned compensation	(4)	—
Treasury stock at cost, 50,308,222 and 54,164,336 shares, respectively	(1,299)	(1,388)
Total stockholders' equity	5,758	5,563
Total liabilities and stockholders' equity	$21,230	$20,738

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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Operating revenues	$3,138	$2,934	$6,034	$5,666
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	2,040	1,906	3,960	3,715
Selling, general and administrative	317	301	633	624
Depreciation and amortization	348	325	673	627
Restructuring	—	23	—	43
Asset impairments and unusual items	(9)	(6)	(18)	(7)
	2,696	2,549	5,248	5,002
Income from operations	442	385	786	664
Other income (expense):				
Interest expense	(119)	(110)	(232)	(219)
Interest income	7	4	10	6
Equity in earnings (losses) of unconsolidated entities	(24)	1	(43)	2
Minority interest	(9)	(2)	(16)	(3)
Other, net	—	4	(2)	7
	(145)	(103)	(283)	(207)
Income before cumulative effect of changes in accounting principles and income taxes	297	282	503	457
Provision for income taxes	81	106	143	174
Income before cumulative effect of changes in accounting principles	216	176	360	283
Cumulative effect of changes in accounting principles, net of income tax expense of $5 for the six months ended June 30, 2004 and income tax benefit of $31 for the six months ended June 30, 2003	—	—	8	(46)
Net income	$ 216	$ 176	$ 368	$ 237
Basic earnings per common share:				
Income before cumulative effect of changes in accounting principles	$ 0.37	$ 0.30	$ 0.62	$ 0.48
Cumulative effect of changes in accounting principles	—	—	0.01	(0.08)
Net income	$ 0.37	$ 0.30	$ 0.63	$ 0.40
Diluted earnings per common share:				
Income before cumulative effect of changes in accounting principles	$ 0.37	$ 0.30	$ 0.62	$ 0.48
Cumulative effect of changes in accounting principles	—	—	0.01	(0.08)
Net income	$ 0.37	$ 0.30	$ 0.63	$ 0.40
Cash dividends per common share	$ 0.19	$ —	$ 0.38	$ —

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net income	$ 368	$ 237
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of changes in accounting principles	(8)	46
Provision for bad debts	23	24
Depreciation and amortization	673	627
Deferred income tax provision	90	69
Minority interest	16	3
Equity in losses (earnings) of unconsolidated entities, net of distributions	31	(2)
Net gain on disposal of assets	(8)	(5)
Effect of asset impairments and unusual items	(18)	(7)
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(104)	(24)
Prepaid expenses and other current assets	(24)	17
Other assets	(10)	102
Accounts payable and accrued liabilities	(25)	(37)
Deferred revenues and other liabilities	15	23
Net cash provided by operating activities	1,019	1,073
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(98)	(172)
Capital expenditures	(526)	(501)
Proceeds from divestitures of businesses, net of cash divested, and other sales of assets	56	34
Net receipts from restricted funds	176	109
Other	9	18
Net cash used in investing activities	(383)	(512)
Cash flows from financing activities:		
New borrowings	348	67
Debt repayments	(369)	(68)
Minority interest distributions paid	(18)	—
Common stock repurchases	(108)	(71)
Cash dividends	(218)	—
Exercise of common stock options and warrants	120	9
Other	(53)	(34)
Net cash used in financing activities	(298)	(97)
Effect of exchange rate changes on cash and cash equivalents	(2)	—
Increase in cash and cash equivalents	336	464
Cash and cash equivalents at beginning of period	217	359
Cash and cash equivalents at end of period	$ 553	$ 823

See notes to condensed consolidated financial statements.

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WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In Millions, Except Shares in Thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Restricted Stock Unearned Compensation	Treasury Stock	
	Shares	Amount					Shares	Amount
Balance, December 31, 2003	630,282	$ 6	$4,501	$2,497	$(53)	$—	(54,164)	$(1,388)
Net income	—	—	—	368	—	—	—	—
Cash dividends	—	—	—	(218)	—	—	—	—
Common stock issued upon exercise of stock options and warrants and grants of restricted stock, including tax benefit of $26	—	—	(16)	—	—	(5)	6,909	177
Earned compensation related to restricted stock	—	—	—	—	—	1	—	—
Common stock repurchases	—	—	—	—	—	—	(3,087)	(89)
Unrealized loss resulting from changes in fair values of derivative instruments, net of tax benefit of $6	—	—	—	—	(9)	—	—	—
Realized losses on derivative instruments reclassified into earnings, net of tax benefit of $3	—	—	—	—	5	—	—	—
Translation adjustment of foreign currency statements	—	—	—	—	(21)	—	—	—
Other	—	—	1	—	—	—	34	1
Balance, June 30, 2004	630,282	$ 6	$4,486	$2,647	$(78)	$ (4)	(50,308)	$(1,299)

See notes to condensed consolidated financial statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The condensed financial statements presented herein represent the consolidation of Waste Management, Inc., a Delaware corporation, its majority-owned subsidiaries and entities required to be consolidated pursuant to the Financial Accounting Standards Board ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46") (see Note 9). Waste Management, Inc. is a holding company that conducts all of its operations through its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc. and all of its consolidated subsidiaries. When we use the term "WMI," we are referring only to the parent holding company.

The condensed consolidated financial statements as of and for the three and six months ended June 30, 2004 are unaudited. In the opinion of management, these financial statements include all adjustments, which, except as described elsewhere herein, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

In preparing our financial statements, we make several estimates and assumptions that affect the accounting for and recognition of assets, liabilities, stockholders' equity, revenues and expenses. We must make these estimates and assumptions because certain of the 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 based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Accounting change — The FASB's December 2003 revision to FIN 46 deferred until March 31, 2004 our application of the Interpretation to non-special purpose type variable interest entities created on or before January 31, 2003. Our application of FIN 46 to this type of entity resulted in the consolidation of certain trusts established to support the performance of closure, post-closure and environmental remediation activities. On March 31, 2004, we recorded an increase in our net assets and a credit to cumulative effect of changes in accounting principles of approximately $8 million, net of taxes, to consolidate these variable interest entities. The consolidation of these trusts has not had, nor is it expected to have, a material effect on our financial position, results of operations or cash flows. The impact of our implementation of FIN 46 is discussed further in Note 9.

In the first quarter of 2003, we recorded a $46 million, net of tax, cumulative effect of changes in accounting principles for the adoption of the (i) Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations;* (ii) a change in our accounting for major repairs and maintenance expenditures and deferred costs associated with annual plant outages at our waste-to-energy facilities and independent power production plants; and (iii) a change in accounting for future losses under customer contracts that over the contract life are projected to have direct costs greater than revenues. These accounting changes do not affect the comparability of our financial position or income before cumulative effect of changes in accounting principles as presented herein.

Reclassifications — As a result of internal review processes, we identified certain mandatory fees and taxes that have historically been treated as pass-through costs that actually represent direct obligations of the Company. Effective January 1, 2004, we began recording all mandatory fees and taxes that create direct obligations for us as operating expenses and recording revenue when the fees and taxes are billed to our customers. We have conformed the prior year's presentation of our revenues and expenses with the current year's presentation by increasing both our revenue and our operating expenses by approximately $19 million for the three months ended June 30, 2003 and by approximately $35 million for the six months ended June 30, 2003.

Through our internal review processes, we also determined that certain cash accounts with negative balances and no legal right of offset had been included in cash and cash equivalents on our balance sheet in prior periods. As a result, we have increased both our cash and cash equivalents and accounts payable balances at December 31, 2003 by approximately $82 million to properly reflect our gross cash balances and current liabilities. We determined that these changes in our accounts payable balances during each reporting period should be treated as financing activities within the statement of cash flows. Accordingly, the $25 million decrease in the amount payable (from $95 million at December 31, 2002 to $70 million at June 30, 2003) has been reflected as a component of other within cash used in financing activities for the six months ended June 30, 2003.

We have various investments in unconsolidated entities that we account for using the equity method. Our equity in the earnings of these entities has historically been presented as a component of other income in our statements of operations and the related cash flow impact has been reflected as a component of the change in other assets within our statements of cash flows. As a result of investments we made during the first and second quarters of 2004, as described in Note 4, this activity has become a more significant component of our net income and operating cash flow activity. Accordingly, we have shown equity in the earnings and losses of unconsolidated entities as a separate component within our statement of operations and equity in earnings and losses of unconsolidated entities, net of distributions, as a separate component of cash provided by operating activities. Prior periods have been reclassified to conform to the current periods' presentation.

2. Landfill and Environmental Remediation Liabilities

Landfill

We have material financial commitments at our landfills for final capping, closure and post-closure activities, as described below:

- *Final capping* — Involves the installation of flexible membrane and geosynthetic clay liners, drainage equipment and compacted soil layers and topsoil over areas of a landfill where total airspace capacity has been consumed. Final capping asset retirement obligations are recorded on a units-of-consumption basis as airspace is consumed within each discrete capping event with a corresponding increase in the landfill asset until all airspace related to each discrete capping event has been consumed.

- *Closure* — Includes the construction of the final portion of methane gas collection systems (when required), demobilization and routine maintenance costs. These are costs incurred after the site stops accepting waste, but before the landfill is certified as closed by the applicable regulatory agency. Closure obligations are accrued as an asset retirement obligation on a units-of-consumption basis as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset.

- *Post-closure* — Once a landfill is certified closed by the applicable regulatory agency, we are required to maintain and monitor the site over a period of time, which is generally 30 years. These maintenance and monitoring costs are accrued as an asset retirement obligation on a units-of-consumption basis as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset.

We develop our estimates of these obligations using input from our operations personnel, engineers and accountants. Our estimates are based on our interpretation of legal and regulatory requirements and are intended to approximate fair value under the provisions of SFAS No. 143. An estimate of fair value under SFAS No. 143 should include the premium that a third party would receive for bearing the uncertainty in cash outflows. However, when using discounted cash flow techniques, reliable estimates of market premiums are not available because there is no market for selling the responsibility for final capping, closure and post-closure obligations independent of selling the landfill in its entirety. Accordingly, we do not believe that it is possible to develop a methodology to estimate a market risk premium and therefore no market risk premium is included in our determination of expected cash outflows for landfill asset retirement obligations. The specific methods used to calculate the fair value for final capping, closure and post-closure and the method of accruing for these balances are explained in detail in our Annual Report on Form 10-K for the year ended December 31, 2003.

We inflate estimated final capping, closure and post-closure costs to the expected time of payment using an inflation rate of 2.5% and discount those expected future costs back to present value using a credit-adjusted, risk-free discount rate, which was 6.25% for liabilities incurred during the six months ended June 30, 2004. Our credit-adjusted, risk-free discount rate is based on the risk-free interest rate on obligations of similar maturity adjusted for our own credit rating. Changes in our credit-adjusted, risk-free discount rate do not change recorded liabilities, but subsequently recognized obligations are measured using the revised discount rate. We determine the inflation rate and our credit-adjusted, risk-free discount rate on an annual basis unless there have been interim changes in either rate that would significantly impact our results of operations.

Environmental Remediation

We routinely review and evaluate sites that require remediation and determine our estimated cost for the likely remedy based on several estimates and assumptions. These estimates are sometimes a range of “reasonably possible” outcomes. “Reasonably possible” outcomes are those outcomes that are considered more than remote and less than likely. In cases where our estimates are a range, we use the amount within the range that constitutes our best estimate. If no amount within the range appears to be a better estimate than any other, we use the low end of the range in accordance with SFAS No. 5, *Accounting for Contingencies*, and its interpretations. If we used the high ends of such ranges, our aggregate potential liability would be approximately $175 million higher on a discounted basis than the $325 million recorded in our condensed consolidated financial statements as of June 30, 2004.

As of June 30, 2004, we had been notified that we are a potentially responsible party in connection with 71 locations listed on the NPL, which is the EPA’s National Priorities List. Through various acquisitions, we have come to own 16 of these sites that were initially developed by others. We are working with the government to characterize or remediate identified site problems and have either agreed with other parties on an arrangement for sharing the costs of remediation or are pursuing resolution of an allocation formula. We generally expect to receive any agreed-upon amounts due from these parties at, or near, the time that we make environmental remediation expenditures. Claims have been made against us at another 55 sites that we do not own but where we have been an operator, transporter or generator of waste. These claims are at different procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, which is known as CERCLA or Superfund. At some of these sites, our liability is well defined as a consequence of a governmental decision and an agreement among the parties involved as to the allocation of costs. At others where no remedy has been selected or the potentially responsible parties have been unable to agree on an appropriate allocation, our future costs are uncertain, and any of these matters could have a material adverse effect on our condensed consolidated financial statements.

Where we believe that both the amount of a particular environmental remediation liability and the timing of the payments are reliably determinable, we inflate the cost in current dollars until the expected time of payment and discount the cost to present value using a risk-free discount rate, which is based on the rate for United States Treasury bonds with a term approximating the weighted average period until settlement of the underlying obligation. As of June 30, 2004, we are using an inflation rate of 2.5% and a risk-free discount rate of 4.25% to record our estimated environmental remediation obligations. We determine the inflation rate and the risk-free discount rate on an annual basis unless there have been interim changes in either rate that would significantly impact our results of operations.

Financial Statement Impact of Landfill and Environmental Remediation Obligations

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

	June 30, 2004			December 31, 2003		
	Landfill	Environmental Remediation	Total	Landfill	Environmental Remediation	Total
Current (in accrued liabilities)	$ 108	$ 57	$ 165	$109	$ 57	$ 166
Long-term	893	268	1,161	849	275	1,124
	$1,001	$325	$1,326	$958	$332	$1,290

The changes to landfill and environmental remediation liabilities for the six months ended June 30, 2004 and 2003 are reflected in the tables below (in millions):

	Landfill	Environmental Remediation
December 31, 2003	$ 958	$332
Obligations incurred and capitalized	31	—
Obligations settled	(25)	(18)
Interest accretion	31	5
Revisions in estimates	9	2
Acquisitions, divestitures and other adjustments	(3)	4
June 30, 2004	$1,001	$325
December 31, 2002	$ 655	$343
Cumulative effect of change in accounting principle	266	—
Obligations incurred and capitalized	26	—
Obligations settled	(20)	(17)
Interest accretion	30	4
Revisions in estimates	1	11
Acquisitions, divestitures and other adjustments	20	12
June 30, 2003	$ 978	$353

At several of our landfills, we provide financial assurance by depositing cash into escrow accounts or trust funds that are legally restricted for purposes of settling closure, post-closure and environmental remediation obligations. The fair value of these escrow accounts and trust funds was approximately $200 million at June 30, 2004, and is primarily included as other long-term assets in our condensed consolidated balance sheet. Balances maintained by us in trust funds and escrow accounts restricted for closure, post-closure and environmental remediation activities will fluctuate based on (i) changes in statutory requirements; (ii) the ongoing use of funds for qualifying closure, post-closure and environmental remediation activities; (iii) acquisitions or divestitures of landfills; and (iv) changes in the fair value of the underlying financial instruments.

3. Debt and Interest Rate Derivatives

Debt

Debt consisted of the following (in millions):

	June 30, 2004	December 31, 2003
Revolving credit facilities(a), (b)	$ —	$ —
Senior notes and debentures, maturing through 2032, interest rates ranging from 5.00% to 8.75% (weighted average interest rate of 7.0% at June 30, 2004)	5,593 (c)	5,662
Tax-exempt bonds maturing through 2038, fixed and variable interest rates ranging from 1.1% to 7.4% (weighted average interest rate of 3.3% at June 30, 2004)	1,888 (d)	1,762
Tax-exempt project bonds, principal payable in periodic installments, maturing through 2027, fixed and variable interest rates ranging from 1.1% to 9.3% (weighted average interest rate of 5.1% at June 30, 2004)	564	566
5.75% convertible subordinated notes due 2005	34	33
Capital leases and other, maturing through 2027, interest rates up to 12%	643	488
	8,722	8,511
Less current portion	775 (e), (f)	514
	$ 7,947	$ 7,997

a) As of June 30, 2004, we had a three-year, $650 million syndicated revolving credit facility and a five-year, $1.75 billion syndicated revolving credit facility. The three-year revolver matures in June 2005 and the five-year revolver matures in June 2006. These facilities have generally been used to support letters of credit issued to support our bonding and financial assurance needs. As of June 30, 2004, no borrowings were outstanding under these facilities, and we had unused and available credit capacity of $969 million.

b) We are required to maintain the following financial covenants under our revolving credit facilities: (i) an interest coverage ratio in excess of 3 to 1; (ii) total debt to EBITDA ratio of less than 3.25 to 1; and (iii) minimum net worth of at least $3.5 billion plus 75% of cumulative consolidated net income beginning with the quarter ended March 31, 2001, all as defined in the credit facilities for the purpose of determining compliance with the covenants. The credit facilities state that the calculations must be based on generally accepted accounting principles promulgated by the FASB that were in effect as of the last fiscal year before the date we entered into these facilities. We therefore calculate our covenants based on GAAP as of December 31, 2000 and 2001 for the five-year revolver and the three-year revolver, respectively, and our adoption or implementation of accounting pronouncements or interpretations effective on or after those dates does not impact the calculation of the financial covenants defined above. As of June 30, 2004 and December 31, 2003, we were in compliance with all covenants under our revolving credit facilities and all other debt instruments.

c) During March 2004, we issued $350 million of 5.0% senior notes due March 15, 2014. Interest on the notes is payable on March 15 and September 15 of each year. The net proceeds of the offering were approximately $346 million after deducting underwriters' discounts and expenses. These proceeds were used to pay $150 million of 8.0% senior notes due April 30, 2004 and $200 million of 6.5% senior notes due May 15, 2004. As discussed in further detail below, there has been a $69 million decrease in the carrying value of our senior notes from December 31, 2003 as a result of hedge accounting for our interest rate derivatives.

d) Proceeds from tax-exempt bond issues are treated as non-cash financing activities and are excluded from cash provided by financing activities in our cash flow statement as the proceeds are deposited directly into trust funds and may only be used for the specific purpose for which the money was raised, which is generally the construction of collection and disposal facilities. Accordingly, our 2004 issuances of approximately $163 million of tax-exempt bonds maturing through 2033 were treated as non-cash financing activities.

e) Our debt obligations as of June 30, 2004 include approximately $416 million of fixed rate tax-exempt bonds subject to re-pricing within the next twelve months, which is prior to their scheduled maturities. If the re-offering of the bonds is unsuccessful, then the bonds can be put to us, requiring immediate repayment. These bonds are not backed by letters of credit that would serve to guarantee repayment in the event of a failed re-offering and are, therefore, considered a current obligation. Approximately

$277 million of these bonds has been classified as long-term in our condensed consolidated balance sheet as of June 30, 2004. The classification of these obligations as long-term was based upon our intent to refinance the borrowings with other long-term financings in the event of a failed re-offering and our ability, in the event other sources of long-term financing are not available, to use our five-year revolving credit facility, which is long-term.

f) At June 30, 2004, we have $590 million of tax-exempt bonds and $46 million of tax-exempt project bonds that are remarketed either daily or weekly by a remarketing agent to effectively maintain a variable yield. If the remarketing agent is unable to remarket the bonds, then the remarketing agent can put the bonds to us. We have obtained letters of credit to guarantee repayment of the bonds in this event. We classified these borrowings as long-term in our condensed consolidated balance sheet at June 30, 2004 because the borrowings are supported by letters of credit issued under our five-year revolving credit facility, which is long-term.

Our debt balances are generally unsecured, except for approximately $473 million of the tax-exempt project bonds outstanding at June 30, 2004 that are issued by certain subsidiaries within our Wheelabrator Group. These bonds are secured by both assets of the related subsidiaries that have a carrying value of approximately $673 million and the related subsidiaries' future revenue. Additionally, our consolidated variable interest entities have approximately $171 million of outstanding borrowings that are collateralized by assets of those entities. These assets have a carrying value of approximately $395 million as of June 30, 2004.

As part of our operations, and in connection with issuances of tax-exempt bonds, we use letters of credit to support our bonding and financial assurance needs. The following table summarizes our outstanding letters of credit (in millions):

	June 30, 2004	December 31, 2003
Revolving credit facilities	$ 1,431	$ 1,608
Letter of credit and term loan agreements(a)	285 (a)	284 (a)
Letter of credit facility(b)	336 (b)	349 (b)
Other lines of credit	87	146
	$ 2,139	$ 2,387

a) In June 2003 we entered into a five-year, $15 million letter of credit and term loan agreement, a seven-year, $175 million letter of credit and term loan agreement, and a ten-year, $105 million letter of credit and term loan agreement, which expire in June 2008, 2010, and 2013, respectively.

b) In December 2003 we entered into a five-year, $350 million letter of credit facility.

Our letters of credit generally have terms allowing for automatic renewal after one year. In the event of an unreimbursed draw on a letter of credit, the unreimbursed amount generally converts into a term loan for the remaining term under the respective agreement or facility. Through June 30, 2004, we had not experienced any unreimbursed draws on letters of credit.

Interest rate swaps

We manage the interest rate risk of our debt portfolio principally by using interest rate derivatives to achieve a desired position of fixed and floating rate debt, which was approximately 63% fixed and 37% floating at June 30, 2004. Interest rate swap agreements outstanding as of December 31, 2003 and June 30, 2004 are set forth in the table below (dollars in millions):

As of	Notional Amount	Maturity Date	Fair Value Liability(a)
December 31, 2003	$ 17	Through December 31, 2012	$ (3) (b)
December 31, 2003	$2,250	Through December 15, 2017	$ (99) (c),(d)
June 30, 2004	$ 52	Through December 31, 2012	$ (2) (b)
June 30, 2004	$2,550	Through December 15, 2017	$(143) (c),(d)

a) The fair value of interest rate derivatives is included in our balance sheets as components of other long-term assets and other long-term liabilities. Fair values of these interest rate derivatives are based on third party pricing models.

b) The interest rate derivative contract terms do not qualify for hedge accounting. Therefore, the related derivatives are accounted for at fair value with changes in fair value recognized immediately in interest expense.

c) These interest rate derivatives qualify for hedge accounting. Therefore, changes in fair value of these interest rate swap contracts are deferred and recognized as an adjustment to interest expense over the remaining life of the hedged instrument.

d) The fair value of these interest rate derivatives at December 31, 2003 is a net fair value liability of $99 million that is comprised of $2 million of other long-term assets and $101 million of other long-term liabilities. The fair value of these interest rate derivatives at June 30, 2004 is a net fair value liability of $143 million that is comprised of $1 million of other long-term assets and $144 million of other long-term liabilities.

Fair value hedge accounting for interest rate swap contracts increased the carrying value of debt instruments by approximately $99 million as of June 30, 2004 and $168 million as of December 31, 2003. The following table summarizes the accumulated fair value adjustments from interest rate swap agreements by underlying debt instrument category (in millions):

Increase (decrease) in carrying value of debt due to hedge accounting for interest rate swaps	June 30, 2004	December 31, 2003
Senior notes and debentures:		
Active swap agreements	$(143)	$ (99)
Terminated swap agreements	241 (a)	266
	98	167
Tax-exempt and project bonds:		
Terminated swap agreements	1 (a)	1
	$ 99	$168

a) Of these amounts, $44 million (on a pre-tax basis) is scheduled to be reclassified as a credit to interest expense over the next twelve months.

Interest rate swap agreements reduced net interest expense by $26 million and $50 million for the three and six months ended June 30, 2004, respectively, and $23 million and $47 million for the three and six months ended June 30, 2003, respectively. The significant terms of the interest rate contracts and the underlying debt instruments are identical and therefore no ineffectiveness has been realized.

4. Income Taxes

The current tax obligations associated with the provision for income taxes recorded in the statements of operations are reflected in the accompanying condensed consolidated balance sheets as a component of accrued liabilities, and the deferred tax obligations are reflected in deferred income taxes. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2004 is primarily due to the favorable impact of non-conventional fuel tax credits and favorable audit settlements, offset in part by state and local income taxes. The difference in federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended

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June 30, 2003 is primarily due to state and local income taxes, offset in part by non-conventional fuel tax credits. We continue to evaluate our effective tax rate at each interim period and adjust it accordingly as facts and circumstances warrant.

In the first and second quarters of 2004, we acquired minority ownership interests in two coal-based synthetic fuel production facilities (the “Facilities”) for approximately $119.7 million, which is comprised primarily of notes payable of $118.5 million, as well as commitments to fund our pro-rata share of the operations of the Facilities. We have also agreed to make additional payments to the seller based on our pro-rata allocation of the tax credits generated by each Facility. The synthetic fuel produced at the Facilities through 2007 qualifies for tax credits pursuant to Section 29 of the Internal Revenue Code (currently credits are not available for fuel produced after 2007). We have been granted private letter rulings from the U.S. Internal Revenue Service confirming that the synthetic fuel produced by the Facilities is a “qualified fuel” under Section 29 of the Internal Revenue Code and that the resulting tax credits may be allocated among the owners of the interests in the Facilities.

We account for our investment in the Facilities using the equity method of accounting, which results in the recognition of our pro-rata share of the Facilities’ losses, the amortization of our initial investments and other estimated obligations being recorded as equity in losses of unconsolidated entities within our statement of operations. The total loss recognized during the three months ended June 30, 2004 was approximately $26 million, making cumulative losses recognized during the six months ended June 30, 2004 approximately $45 million. We also recognized interest expense related to these investments of approximately $2 million during the three months ended June 30, 2004 and approximately $4 million during the six months ended June 30, 2004. The tax benefits that we will realize as a result of our investments in the Facilities have been reflected as a reduction to our provision for income taxes. This resulted in a decrease in our tax provision of approximately $35 million for the three months ended June 30, 2004 and approximately $54 million for the six months ended June 30, 2004, which more than offset the equity losses and interest expense recognized during each period. The decreases in our tax provision represent an 8.3 percentage point reduction in our effective tax rate for the three months ended June 30, 2004 and a 7.0 percentage point reduction in our effective tax rate for the six months ended June 30, 2004.

5. Comprehensive Income

Comprehensive income represents all changes in our equity except for changes resulting from investments by, and distributions to, stockholders. Comprehensive income for the three and six months ended June 30, 2004 and June 30, 2003 was as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income	$216	$176	$368	$237
Other comprehensive income (loss):				
Unrealized loss resulting from changes in fair values of derivative instruments, net of tax benefit	(2)	—	(9)	(3)
Realized losses on derivative instruments reclassified into earnings, net of taxes	3	—	5	—
Minimum pension liability adjustment, net of taxes	—	—	—	1
Unrealized loss on marketable securities, net of taxes	(2)	—	—	—
Translation adjustment of foreign currency statements	(12)	58	(21)	98
Other comprehensive income (loss)	(13)	58	(25)	96
Comprehensive income	$203	$234	$343	$333

The components of accumulated other comprehensive loss were as follows:

	June 30, 2004	December 31, 2003
Accumulated unrealized loss on derivative instruments, net of tax benefit	$(46)	$(42)
Accumulated unrealized gain on marketable securities, net of taxes	1	1
Cumulative translation adjustment of foreign currency statements	(33)	(12)
	$(78)	$(53)

6. Earnings Per Share

The following reconciles the number of common shares outstanding at June 30 of each year to the number of weighted average basic common shares outstanding and the number of weighted average diluted common shares outstanding for the purpose of calculating basic and diluted earnings per common share (shares in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Number of common shares outstanding at end of period	580.0	591.8	580.0	591.8
Effect of using weighted average common shares outstanding	0.2	(0.3)	(1.2)	0.8
Weighted average basic common shares outstanding	580.2	591.5	578.8	592.6
Dilutive effect of common stock options, warrants, restricted stock and contingently issuable shares	5.2	3.3	5.3	2.6
Weighted average diluted common shares outstanding	585.4	594.8	584.1	595.2

At June 30, 2004, there were approximately 49.7 million shares of common stock potentially issuable with respect to stock options, warrants and convertible debt. Approximately 9.7 million shares and 18.2 million shares were not included in the diluted earnings per share computations for the three and six months ended June 30, 2004, respectively, because their exercise price was greater than the average per share market price of our stock for the related periods. Including the impact of these potentially issuable shares in the current period calculations would not have been dilutive for the periods presented, but may dilute earnings per share in the future.

7. Stock-Based Compensation, Common Stock Dividends and Common Stock Repurchases

Stock-Based Compensation

Pursuant to our stock incentive plans, we have the ability to issue stock options, stock awards and stock appreciation rights, all on terms and conditions that are determined by the Compensation Committee of our Board of Directors. The following is a summary of the significant terms of the stock options and restricted stock granted to our officers and employees under these plans during the six months ended June 30, 2004.

Stock options — During the six months ended June 30, 2004, we have issued an aggregate of approximately 8.9 million of stock options to certain of our officers and employees as part of the 2004 annual grant or as grants issued for promotions or new hire incentives. The weighted average exercise price of options granted during this period was $29.20 per common share. These stock options all have exercise prices equal to the fair market value of our common stock as of the date of grant, expire ten years from the date of grant and vest ratably over a four-year period.

Restricted stock — During the six months ended June 30, 2004, we have issued an aggregate of 159,400 shares of our restricted stock to certain of our officers as part of the 2004 annual grant or as grants issued for promotions or new hire incentives. The restricted stock grants also vest ratably over a four-year period. The shares issued are subject to forfeiture in the event of termination of employment and entitle the holder to all benefits of a stockholder, including the right to receive dividends and vote on all matters put to a vote of security holders.

We account for our stock-based compensation using the intrinsic value method. Under this method, we do not recognize compensation cost for our stock options because the number of shares potentially issuable and the exercise price, which is equal to the fair market value of the underlying stock on the date of grant, are fixed. We recognize compensation expense for restricted stock awards on a straight-line basis over the vesting period based on the fair market value of our common stock on the date of grant.

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The following schedule reflects the pro forma impact on net income and earnings per common share of accounting for our stock options using SFAS No. 123, *Accounting for Stock-Based Compensation,* which would result in the recognition of compensation expense for the fair value of stock options as computed using the Black-Scholes option-pricing model (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Reported net income	$ 216	$ 176	$ 368	$ 237
Less: compensation expense per SFAS No. 123, net of tax benefit	15	18	28	33
Pro forma net income	$ 201	$ 158	$ 340	$ 204
Basic earnings per common share:				
Reported net income	$0.37	$0.30	$0.63	$0.40
Less: compensation expense per SFAS No. 123, net of tax benefit	0.03	0.03	0.05	0.06
Pro forma net income	$0.34	$0.27	$0.58	$0.34
Diluted earnings per common share:				
Reported net income	$0.37	$0.30	$0.63	$0.40
Less: compensation expense per SFAS No. 123, net of tax benefit	0.03	0.03	0.05	0.06
Pro forma net income	$0.34	$0.27	$0.58	$0.34

Common Stock Dividends and Repurchases

In August 2003, we announced that our Board of Directors approved a quarterly dividend program. In May 2004, we declared our second quarterly dividend of $0.1875 per share of common stock, or approximately $109 million, which was paid on June 25, 2004 to stockholders of record as of June 1, 2004. We have paid approximately $218 million in dividends during the six months ended June 30, 2004. Based on shares outstanding as of June 30, 2004, continued quarterly dividend declarations by our Board of Directors of $0.1875 per common share would result in total annual payments of approximately $436 million in 2004.

In February 2002 we announced that our Board of Directors had approved a stock repurchase program for up to $1 billion in annual repurchases through 2004, to be implemented at management's discretion. Although we are authorized to purchase up to $1 billion of our common stock under this program, we currently intend to spend between $400 million and $500 million on share repurchases during the year ended December 31, 2004. During the current quarter, we repurchased approximately three million shares of our common stock at a cost of approximately $89 million. We did not repurchase any of our common stock during the first quarter of 2004, although we made a cash payment of approximately $24 million in January 2004 to settle repurchases made in December 2003. Approximately $5 million of the share repurchases completed in the second quarter will be settled in cash in July.

As of June 30, 2004, we have the ability, under our most restrictive financial covenants, to make dividend payments and share repurchases in the aggregate amount of approximately $515 million.

8. 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 closure and post-closure requirements, environmental remediation and other obligations. We obtain these financial assurance instruments from several sources, including an entity that we have an investment in and account for under the equity method; a wholly-owned insurance company, the sole business of which is to issue policies for the parent holding company and its other subsidiaries; and a consolidated variable interest entity that was formed to provide surety bonds to the waste industry (see Note 9).

Because virtually no claims have been made against these financial instruments in the past, and considering our current financial position, we do not expect that these instruments will 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. However, 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 were unable to timely meet their commitments. We have retained a portion of the risks related to our automobile, general liability and workers' compensation insurance programs. 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. The estimated accruals for these liabilities could be affected if future occurrences or loss development significantly differ from utilized 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.

For the 14 months ended January 1, 2000, we insured certain risks, including auto, general liability and workers' compensation, with Reliance National Insurance Company, whose parent filed for bankruptcy in June 2001. In October 2001, the parent and certain of its subsidiaries, including Reliance National Insurance Company, were placed in liquidation. We believe that because of various state insurance guarantee funds and potential recoveries from the liquidation, currently estimated to be approximately $26 million, it is unlikely that events relating to Reliance will have a material adverse impact on our financial statements.

Guarantees — We have entered into the following guarantee agreements associated with our operations.

- Waste Management Holdings, Inc. ("WM Holdings"), one of WMI's wholly-owned subsidiaries, has fully and unconditionally guaranteed WMI's senior indebtedness that matures through 2032. WMI has fully and unconditionally guaranteed the senior indebtedness of WM Holdings that matures through 2026 and WM Holdings' 5.75% convertible subordinated notes due 2005. Performance under these guarantee agreements would be required if either party defaulted on its respective obligations. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in our consolidated balance sheets. See Note 11 for further information.

- WMI has guaranteed the tax-exempt bonds of its subsidiaries. If a subsidiary fails to meet its obligations associated with tax-exempt bonds as they come due, WMI will be required to perform under the related guarantee agreement. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in our consolidated balance sheets. See Note 3 for information related to the balances and maturities of our tax-exempt bonds.

- We have guaranteed certain financial obligations of unconsolidated entities. The guarantees are primarily for the benefit of entities that we account for under the equity method of accounting. The related obligations, which mature through 2020, are not recorded on our consolidated balance sheets, and we have not recorded any liability for these guarantees. As of June 30, 2004, our maximum future payments associated with these guarantees is approximately $35 million. However, we have ongoing relationships with the entities and believe that our performance under these guarantees is not likely.

- During 2003, we issued a $25.6 million letter of credit to support the debt of a surety bonding company. The guaranteed obligation is included as a component of long-term debt in our condensed consolidated balance sheet.

- WM Holdings has guaranteed all reimbursement obligations of WMI under its $350 million letter of credit facility and $295 million letter of credit and term loan agreements. Under those facilities, any draw on a letter of credit supported by the facilities will be reimbursed by WMI to the entities funding the facilities. As of June 30, 2004, we had approximately $621 million in outstanding letters of credit under these facilities.

- In connection with the $350 million letter of credit facility, WMI and WM Holdings entered into a guarantee pursuant to which they guaranteed interest rate swap payments made by the entity funding the letter of credit facility. The probability of loss for the guarantees was determined to be remote and the fair value of the guarantees is immaterial to our financial position and results of operations.

- Certain of our subsidiaries have guaranteed the market value of various residential properties that are adjacent to our landfills. These guarantee agreements extend over the life of the landfill. Under these agreements, we would be responsible for the difference between the sale value and the guaranteed market value of the homeowners' properties, if any. We do not believe it is possible to determine the contingent obligation associated with these guarantees, but we do not believe that these contingent obligations will have a material effect on our financial position, results of operations or cash flows.

- We have indemnified the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. Other than certain identified items that are currently recorded as obligations, we do not believe it is possible to determine the contingent obligations associated with these indemnities.

- WMI guarantees the service, lease and general operating obligations of certain of its subsidiaries. If such a subsidiary fails to meet its contractual obligations as they come due, WMI has an unconditional obligation to perform on its behalf. No additional liability has been recorded for service or general operating guarantees because the subsidiaries' obligations are properly accounted for as costs of operations as services are provided or general operating obligations are incurred. No additional liability has been recorded for the lease guarantees because the subsidiaries' obligations are properly accounted for as operating or capital leases, as appropriate.

We currently believe that it is not reasonably likely that we will be required to perform under these guarantee agreements or that any performance requirement would have a material impact on our consolidated financial statements.

Environmental matters — Our business is intrinsically connected with the protection of the environment. As such, a significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection. Such costs may increase in the future as a result of legislation or regulation. However, we believe that we generally tend to benefit when environmental regulation increases, because such regulations increase the demand for our services, and we have the resources and experience to manage environmental risk. For more information regarding environmental matters, see Note 2.

Litigation — In December 1999, an individual brought an action against the Company, five former officers of WM Holdings, and WM Holdings' former independent auditor, Arthur Andersen LLP, in Illinois state court on behalf of a proposed class of individuals who purchased WM Holdings common stock before November 3, 1994, and who held that stock through February 24, 1998. The action is for alleged acts of common law fraud, negligence and breach of fiduciary duty. This case has remained in the pleadings stage for the last several years due to numerous motions and rulings by the court related to the viability of these claims. Only limited discovery has occurred and the defendants continue to defend themselves vigorously. The extent of possible damages, if any, in this action cannot yet be determined.

In April 2002, a former participant in WM Holdings' ERISA plans and another individual filed a lawsuit in Washington, D.C. against us, WM Holdings and others, attempting to increase the recovery of a class of ERISA plan participants 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 and the securities class action against us that was settled in November 2001. Subsequently, the issues related to the latter class action have been dropped as to the Company, its officers and directors. However, the case is ongoing with respect to WM Holdings and others. Additionally, a single group of stockholders opted not to participate in the settlement of the class action lawsuit against us related to 1998 and 1999 activity and filed an individual lawsuit against us. The Company intends to defend itself vigorously in all of these proceedings.

Three groups of stockholders have filed separate lawsuits in state courts in Texas and federal court in Illinois against us and certain of our former officers. The lawsuit filed in Illinois was subsequently transferred to federal court in Texas. The petitions allege that the plaintiffs are substantial holders of the Company's common stock who intended to sell their stock in 1999, or to otherwise protect themselves against loss, but that the public statements we made regarding our prospects, and in some instances statements made by the individual defendants, were false and misleading and induced the plaintiffs to retain their stock or not to take other measures. The plaintiffs assert that the value of their retained stock declined dramatically and that they incurred significant losses. The plaintiffs assert claims for fraud, negligent misrepresentation, and conspiracy. The first of these cases was dismissed by summary judgment by a Texas state court in March 2002. That dismissal was reversed in the first quarter of 2004 by an intermediate appellate court, and we are appealing that decision. The second case also filed in state court is stayed pending resolution of the first case, and we intend to continue to vigorously defend these claims. In March 2004, the court granted our motion to dismiss the third case, which was pending in federal court, and the plaintiffs have appealed that dismissal.

From time to time, we pay fines or penalties in environmental proceedings relating primarily to waste treatment, storage or disposal facilities. As of June 30, 2004, there were seven proceedings involving our subsidiaries where we reasonably believe that the sanctions could exceed $100,000. The matters involve allegations that subsidiaries (i) operated a waste-to-energy facility that, as a result of intermittent and isolated equipment malfunctions, exceeded emission limits and failed to meet monitoring requirements; (ii) are responsible for remediation of landfill gas and chemical compounds required pursuant to a Unilateral Administrative Order associated with an NPL site (a Consent Decree setting forth resolution of this matter was lodged with the Court on May 21, 2004); (iii) are responsible for late performance of work required under a Unilateral Administrative Order; (iv) improperly operated a solid waste landfill and caused excess odors; (v) improperly operated a solid waste landfill by failing to maintain required records, properly place and cover waste and adhere to proper leachate levels; (vi) did not comply with air regulations requiring control of emissions at a closed landfill; and (vii) discharged wastewater from a cogeneration facility in noncompliance with waste discharge requirements issued pursuant to a state water code. We do not believe that the fines or other penalties in any of these matters will, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

It is not always possible to predict the impact that lawsuits, proceedings, investigations and inquiries may have on us, nor is it possible to predict whether additional suits or claims may arise out of the matters described above in the future. We intend to defend ourselves vigorously in all the above matters. However, it is possible that the outcome of any of the matters described, or others, may ultimately have a material adverse impact on our financial condition or results of operations in one or more future periods.

We are also currently involved in other routine civil litigation and governmental proceedings relating to the conduct of our business, including litigation involving former employees and competitors. We do not believe that any of the matters may ultimately have a material adverse impact on our consolidated financial statements.

Tax matters — We are currently under audit by the IRS and from time to time are audited by other taxing authorities. We fully cooperate with all audits, but defend our positions vigorously. Our audits are in various stages of completion. Specifically, we are in the process of concluding the appeals phase of IRS audits for the years 1989 to 1996. The audits for these years should be completed within the next 12 months. In addition, we are in the examination phase of an IRS audit for the years 1997 to 2000. This audit should also be completed within the next 12 months. To provide for potential tax exposures, we maintain an allowance for tax contingencies, the balance of which management believes is adequate. Results of audit assessments by taxing authorities could have a material effect on our quarterly or annual cash flows over the next 12 months as these audits are completed. However, we do not believe that any of these matters will have a material adverse impact on our results of operations.

9. Variable Interest Entities

In January 2003, the FASB issued FIN 46, which requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity's expected losses or receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. In December 2003, the FASB revised FIN 46 to provide additional exemptions for application, an extended initial application period and clarification of key terms.

As it applies to us, the effective dates for FIN 46 were as follows:

Entity Characteristics		
Creation or Modification	**Entity Type**	**Effective Dates**
After January 31, 2003	All variable interest entities(a), (b)	February 1, 2003
On or before January 31, 2003	Special purpose variable interest entities(c)	December 31, 2003
On or before January 31, 2003	All other variable interest entities(d)	March 31, 2004

a) During the third quarter of 2003, we began consolidating a surety bonding company that was formed July 1, 2003 due to our financial interest in that company, as described in our annual report on Form 10-K for the year ended December 31, 2003. The consolidation of this variable interest entity has not had a material impact on our financial position or results of operations as of and for the three and six months ended June 30, 2004.

b) As discussed in Note 4, we hold an ownership interest in two coal-based synthetic fuel production facilities. Along with the other equity investors, we support the operations of the entities in exchange for a pro-rata share of the tax credits generated by the facilities. Our obligation to support the facilities' future operations is, therefore, limited to the tax benefit we expect to receive. We are not the primary beneficiary of either of these entities, and we do not believe that we have any material exposure to loss, as measured under the provisions of FIN 46, as a result of our investments.

c) On December 31, 2003, we began consolidating two limited liability companies from which we lease three waste-to-energy facilities, as described in our Annual Report on Form 10-K for the year ended December 31, 2003. The consolidation of these entities decreased our operating expenses by approximately $13 million and $27 million for the three and six months ended June 30, 2004, respectively. However, this decrease was substantially offset by increases in depreciation expense, interest expense and minority interest expense, resulting in an immaterial impact on our net income.

d) We have determined that we are the primary beneficiary of trust funds that are created for purposes of settling certain of our closure, post-closure or environmental remediation obligations. Therefore, on March 31, 2004, we recorded a credit of approximately $8 million, net of tax, or $0.01 per diluted share, as a cumulative effect of change in accounting principle to consolidate these trust funds. As the trust funds are generally invested in high quality, low risk financial instruments and are expected to continue to meet the statutory requirements for which they were established, we do not believe that there is any material exposure to loss associated with the trusts. The consolidation of these variable interest entities has not materially affected our financial position or results of operations.

10. Segment and Related Information

We manage and evaluate our operations primarily through our Eastern, Midwest, Southern, Western, Canadian, Wheelabrator and Recycling Groups. These seven operating Groups are presented below as our reportable segments. These reportable segments, when combined with certain other operations not managed through the seven operating Groups, comprise our North American Solid Waste, or NASW, operations. NASW, our core business, provides integrated waste management services consisting of collection, disposal (solid waste and hazardous waste landfills), transfer, waste-to-energy facilities and independent power production plants that are managed by Wheelabrator, recycling and other miscellaneous services to commercial, industrial, municipal and residential customers throughout the United States, Puerto Rico and Canada. The operations not managed through our seven operating Groups are presented herein as “Other NASW.”

Summarized financial information concerning our reportable segments for the three and six months ended June 30 is shown in the following tables (in millions). For comparability purposes, prior period information has been restated to conform to the current year presentation.

Three Months Ended:	Gross Operating Revenues	Intercompany Operating Revenues(d)	Net Operating Revenues(e)	Income from Operations(f)
June 30, 2004				
Canadian	$ 157	$ (16)	$ 141	$ 19
Eastern	1,054	(232)	822	101
Midwest	601	(115)	486	89
Southern	811	(126)	685	158
Western	676	(90)	586	91
Wheelabrator	211	(14)	197	81
Recycling	189	(5)	184	12
Other NASW(a)	56	(19)	37	(7)
Total NASW	3,755	(617)	3,138	544
Other(b)	—	—	—	12
Corporate(c)	—	—	—	(114)
Total	$3,755	$(617)	$3,138	$ 442
June 30, 2003				
Canadian	$ 150	$ (16)	$ 134	$ 17
Eastern	1,005	(220)	785	91
Midwest	574	(103)	471	84
Southern	762	(119)	643	141
Western	637	(89)	548	83
Wheelabrator	203	(14)	189	71
Recycling	139	(3)	136	(1)
Other NASW(a)	48	(20)	28	(9)
Total NASW	3,518	(584)	2,934	477
Other(b)	—	—	—	—
Corporate(c)	—	—	—	(92)
Total	$3,518	$(584)	$2,934	$ 385

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Six Months Ended:	Gross Operating Revenues	Intercompany Operating Revenues(d)	Net Operating Revenues(e)	Income from Operations(f)
June 30, 2004				
Canadian	$ 298	$ (30)	$ 268	$ 30
Eastern	1,975	(421)	1,554	169
Midwest	1,128	(210)	918	153
Southern	1,602	(249)	1,353	317
Western	1,315	(176)	1,139	183
Wheelabrator	407	(28)	379	126
Recycling	361	(10)	351	17
Other NASW(a)	111	(39)	72	(12)
Total NASW	7,197	(1,163)	6,034	983
Other(b)	—	—	—	12
Corporate(c)	—	—	—	(209)
Total	$7,197	$(1,163)	$6,034	$ 786
June 30, 2003				
Canadian	$ 267	$ (28)	$ 239	$ 24
Eastern	1,887	(398)	1,489	149
Midwest	1,080	(189)	891	142
Southern	1,504	(232)	1,272	281
Western	1,252	(174)	1,078	167
Wheelabrator	402	(30)	372	113
Recycling	272	(6)	266	(1)
Other NASW(a)	94	(35)	59	(6)
Total NASW	6,758	(1,092)	5,666	869
Other (b)	—	—	—	(2)
Corporate (c)	—	—	—	(203)
Total	$6,758	$(1,092)	$5,666	$ 664

a) Other NASW includes operations provided throughout our operating Groups for methane gas recovery and certain third party sub- contract and administration revenues managed by our national accounts department. Also included are certain quarter-end adjustments related to the reportable segments that are not included in the measure of segment profit or loss used to assess their performance for the periods disclosed.

b) All of our international waste management services and non-solid waste services, reported herein as “Other”, were divested by March 31, 2002. The income (loss) from operations recognized during each of the periods presented above represents the combined impact of minimal administrative expenses that we continue to incur in connection with these divestitures and revisions of our estimated obligations associated with these divestitures.

c) Corporate functions include the treasury, legal, information technology, tax, insurance, management of closed landfills and related insurance recoveries, centralized service center and other typical administrative functions. Certain of the associated costs for support services are allocated to the seven operating Groups.

d) Intercompany operating revenues reflect each segment’s total intercompany sales including intercompany sales within a segment and between segments. Transactions within and between segments are generally made on a basis intended to reflect the market value of the service.

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

f) For those items included in the determination of income from operations, the accounting policies of our segments are generally the same as those described in the summary of significant accounting policies included in our December 31, 2003 Form 10-K, except as discussed in Note 1 included herein.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below shows the total revenues by principal lines of business (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Collection	$2,059	$1,950	$ 4,023	$ 3,817
Landfill	773	735	1,437	1,363
Transfer	441	410	810	752
Wheelabrator	211	203	407	402
Recycling and other(a)	271	220	520	424
Intercompany(b)	(617)	(584)	(1,163)	(1,092)
Operating revenues	$3,138	$2,934	$ 6,034	$ 5,666

a) In addition to the revenue generated by our Recycling Group, we have included revenues generated within our five geographic operating Groups derived from recycling, methane gas operations, sweeping services and Port-O-Let® services in the “recycling and other” line of business.

b) Intercompany revenues between lines of business are eliminated within the condensed consolidated financial statements included herein.

11. Condensed Consolidating Financial Statements

WM Holdings has fully and unconditionally guaranteed WMI’s senior indebtedness. WMI has fully and unconditionally guaranteed all of WM Holdings’ senior indebtedness and its 5.75% convertible subordinated notes due 2005. None of WMI’s other subsidiaries have guaranteed any of WMI’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):

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2004

(Unaudited)

ASSETS

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 589	$ —	$ —	$ (36)	$ 553
Other current assets	—	—	2,568	—	2,568
	589	—	2,568	(36)	3,121
Property and equipment, net	—	—	11,325	—	11,325
Investments in and advances to affiliates	9,883	6,374	—	(16,257)	—
Other assets	27	42	6,715	—	6,784
Total assets	$10,499	$6,416	$20,608	$(16,293)	$21,230

LIABILITIES AND STOCKHOLDERS' EQUITY

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current liabilities:					
Current portion of long-term debt	$ 319	$ 137	$ 319	$ —	$ 775
Accounts payable and other current liabilities	76	26	2,738	(36)	2,804
	395	163	3,057	(36)	3,579
Long-term debt, less current portion	4,211	1,203	2,533	—	7,947
Due to affiliates	—	—	5,674	(5,674)	—
Other liabilities	135	9	3,534	—	3,678
Total liabilities	4,741	1,375	14,798	(5,710)	15,204
Minority interest in subsidiaries and variable interest entities	—	—	268	—	268
Stockholders' equity	5,758	5,041	5,542	(10,583)	5,758
Total liabilities and stockholders' equity	$10,499	$6,416	$20,608	$(16,293)	$21,230

December 31, 2003

ASSETS

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 224	$ —	$ —	$ (7)	$ 217
Other current assets	—	—	2,453	—	2,453
	224	—	2,453	(7)	2,670
Property and equipment, net	—	—	11,411	—	11,411
Investments in and advances to affiliates	9,936	6,065	—	(16,001)	—
Other assets	29	106	6,522	—	6,657
Total assets	$10,189	$6,171	$20,386	$(16,008)	$20,738

LIABILITIES AND STOCKHOLDERS' EQUITY

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current liabilities:					
Current portion of long-term debt	$ 118	$ —	$ 396	$ —	$ 514
Accounts payable and other current liabilities	88	43	2,776	(7)	2,900

	206	43	3,172	(7)	3,414
Long-term debt, less current portion	4,325	1,531	2,141	—	7,997
Due to affiliates	—	—	6,327	(6,327)	—
Other liabilities	95	6	3,413	—	3,514
Total liabilities	4,626	1,580	15,053	(6,334)	14,925
Minority interest in subsidiaries and variable interest entities	—	—	250	—	250
Stockholders' equity	5,563	4,591	5,083	(9,674)	5,563
Total liabilities and stockholders' equity	$10,189	$6,171	$20,386	$(16,008)	$20,738

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended June 30, 2004

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	$ —	$ —	$3,138	$ —	$3,138
Costs and expenses	—	—	2,696	—	2,696
Income from operations	—	—	442	—	442
Other income (expense):					
Interest expense, net	(66)	(23)	(23)	—	(112)
Equity in subsidiaries, net of taxes	258	273	—	(531)	—
Minority interest	—	—	(9)	—	(9)
Equity in losses of unconsolidated entities and other, net	—	—	(24)	—	(24)
	192	250	(56)	(531)	(145)
Income before income taxes	192	250	386	(531)	297
Provision for (benefit from) income taxes	(24)	(8)	113	—	81
Net income	$216	$258	$ 273	$(531)	$ 216

Three Months Ended June 30, 2003

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	$ —	$ —	$2,934	$ —	$2,934
Costs and expenses	—	—	2,549	—	2,549
Income from operations	—	—	385	—	385
Other income (expense):					
Interest expense, net	(59)	(33)	(14)	—	(106)
Equity in subsidiaries, net of taxes	213	234	—	(447)	—
Minority interest	—	—	(2)	—	(2)
Equity in earnings of unconsolidated entities and other, net	—	1	4	—	5
	154	202	(12)	(447)	(103)
Income before income taxes	154	202	373	(447)	282
Provision for (benefit from) income taxes	(22)	(11)	139	—	106
Net income	$176	$213	$ 234	$(447)	$ 176

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Six Months Ended June 30, 2004

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	$ —	$ —	$6,034	$ —	$6,034
Costs and expenses	—	—	5,248	—	5,248
Income from operations	—	—	786	—	786
Other income (expense):					
Interest expense, net	(130)	(48)	(44)	—	(222)
Equity in subsidiaries, net of taxes	450	480	—	(930)	—
Minority interest	—	—	(16)	—	(16)
Equity in losses of unconsolidated entities and other, net	—	—	(45)	—	(45)
	320	432	(105)	(930)	(283)
Income before cumulative effect of changes in accounting principles and income taxes	320	432	681	(930)	503
Provision for (benefit from) income taxes	(48)	(18)	209	—	143
Income before cumulative effect of changes in accounting principles	368	450	472	(930)	360
Cumulative effect of changes in accounting principles, net of taxes	—	—	8	—	8
Net income	$ 368	$450	$ 480	$(930)	$ 368

Six Months Ended June 30, 2003

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues	$ —	$ —	$5,666	$ —	$5,666
Costs and expenses	—	—	5,002	—	5,002
Income from operations	—	—	664	—	664
Other income (expense):					
Interest expense, net	(119)	(66)	(28)	—	(213)
Equity in subsidiaries, net of taxes	312	353	—	(665)	—
Minority interest	—	—	(3)	—	(3)
Equity in losses of unconsolidated entities and other, net	—	2	7	—	9
	193	289	(24)	(665)	(207)
Income before cumulative effect of changes in accounting principles and income taxes	193	289	640	(665)	457
Provision for (benefit from) income taxes	(44)	(23)	241	—	174
Income before cumulative effect of changes in accounting principles	237	312	399	(665)	283
Cumulative effect of changes in accounting principles, net of taxes	—	—	(46)	—	(46)
Net income	$ 237	$312	$ 353	$(665)	$ 237

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2004

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 368	$ 450	$ 480	$(930)	$ 368
Equity in earnings of subsidiaries, net of taxes	(450)	(480)	—	930	—
Other adjustments and charges	(7)	(5)	663	—	651
Net cash provided by (used in) operating activities	(89)	(35)	1,143	—	1,019
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(98)	—	(98)
Capital expenditures	—	—	(526)	—	(526)
Proceeds from divestitures of businesses, net of cash divested, and other sales of assets	—	—	56	—	56
Net receipts from restricted funds and other	5	—	180	—	185
Net cash provided by (used in) investing activities	5	—	(388)	—	(383)
Cash flows from financing activities:					
New borrowings	346	—	2	—	348
Debt repayments	(200)	(150)	(19)	—	(369)
Common stock repurchases	(108)	—	—	—	(108)
Cash dividends	(218)	—	—	—	(218)
Exercise of common stock options and warrants	120	—	—	—	120
Minority interest distributions paid and other	(1)	—	(70)	—	(71)
(Increase) decrease in intercompany and investments, net	510	185	(666)	(29)	—
Net cash provided by (used in) financing activities	449	35	(753)	(29)	(298)
Effect of exchange rate changes on cash and cash equivalents	—	—	(2)	—	(2)
Increase in cash and cash equivalents	365	—	—	(29)	336
Cash and cash equivalents at beginning of period	224	—	—	(7)	217
Cash and cash equivalents at end of period	$ 589	$ —	$ —	$ (36)	$ 553

Six Months Ended June 30, 2003

(Unaudited)

	WMI	WM Holdings	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 237	$ 312	$ 353	$(665)	$ 237
Equity in earnings of subsidiaries, net of taxes	(312)	(353)	—	665	—
Other adjustments and charges	9	3	824	—	836
Net cash provided by (used in) operating activities	(66)	(38)	1,177	—	1,073
Cash flows from investing activities:					
Acquisitions of businesses, net of cash acquired	—	—	(172)	—	(172)
Capital expenditures	—	—	(501)	—	(501)
Proceeds from divestitures of businesses, net of cash divested, and other sales of assets	—	—	34	—	34
Net receipts from restricted funds and other	—	—	127	—	127
Net cash used in investing activities	—	—	(512)	—	(512)
Cash flows from financing activities:					
New borrowings	—	—	67	—	67

Debt repayments	—	—	(68)	—	(68)
Common stock repurchases	(71)	—	—	—	(71)
Exercise of common stock options and warrants	9	—	—	—	9
Minority interest distributions paid and other	(3)	—	(31)	—	(34)
(Increase) decrease in intercompany and investments, net	624	38	(662)	—	—
Net cash provided by (used in) financing activities	559	38	(694)	—	(97)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	—
Increase (decrease) in cash and cash equivalents	493	—	(29)	—	464
Cash and cash equivalents at beginning of period	316	—	43	—	359
Cash and cash equivalents at end of period	$ 809	$ —	$ 14	$ —	$ 823

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. 2003 Restructurings

In February 2003 we reduced the number of market areas that make up our geographic operating Groups and reduced certain overhead positions to further streamline our organization. In connection with the restructuring, we reduced our workforce by about 700 employees and 270 contract workers. We recorded $20 million of pre-tax charges for costs associated with our February 2003 restructuring and workforce reduction, all of which was associated with employee severance and benefit costs. The operational efficiencies provided by these organizational changes and a focus on fully utilizing the capabilities of our information technology resources enabled us to further reduce our workforce in June 2003. This workforce reduction resulted in the elimination of an additional 600 employee positions and 200 contract worker positions. We recorded $23 million of pre-tax charges for costs associated with the June 2003 workforce reduction during the six months ended June 30, 2004. We do not expect to incur any additional costs for these restructuring and workforce reduction efforts. Approximately $2 million remains accrued as of June 30, 2004 for employee severance and benefit costs incurred as a result of these activities, which will be paid to certain employees through the third quarter of 2005.

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

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

Some of the risks that we face and that could affect our business and financial statements for the remainder of 2004 and beyond include:

- possible changes in our estimates of site remediation requirements, final capping, closure and post-closure obligations, or compliance and regulatory developments;
- the possible impact of regulations on our business, including the cost to comply with regulatory requirements and the potential liabilities associated with disposal operations, as well as our ability to obtain and maintain permits needed to operate our facilities;
- the effect of limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste;
- possible charges against earnings as a result of shut-down operations, uncompleted development or expansion projects or other events;
- the effects that trends toward requiring recycling, waste reduction at the source and prohibiting the disposal of certain types of wastes could have on volumes of waste going to landfills and waste-to-energy facilities;
- the effect the weather has on our quarter to quarter results, as well as the effect of extremely harsh weather on our operations;
- the effect that price fluctuations on commodity prices may have on our operating revenues;
- the outcome of litigation or threatened litigation;
- the effect competition in our industry could have on our profitability or cash flows;
- possible diversions of management's attention and increases in operating expenses due to efforts by labor unions to organize our employees;
- possible increases in operating expenses due to fuel price increases or fuel supply shortages;
- the effects of general economic conditions, including the ability of insurers to fully or timely meet their contractual commitments and of surety companies to continue to issue surety bonds;
- the need for additional capital if cash flows are less than we expect or capital expenditures are more than we expect, and the possibility that we cannot obtain additional capital on acceptable terms if needed;
- possible errors or problems upon implementation of new information technology systems; and
- possible fluctuations in quarterly results of operations or adverse impacts on our results of operations as a result of the adoption of new accounting standards or interpretations.

These are not the only risks that we face. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business and financial position.

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 http://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 "WMI."

We are the leading provider of integrated waste services in North America. Through our subsidiaries we provide collection, transfer, recycling and resource recovery, and disposal services. We are also a leading developer, operator and owner of waste-to-energy facilities in the United States. Our customers include commercial, industrial, municipal and residential customers, other waste management companies, electric utilities and governmental entities.

Overview

The second quarter of 2004 was a good quarter for the Company, and was marked by many trends similar to those of the first quarter. During 2004, management is primarily focused on:

- increasing the efficiency of our operations, primarily by focusing on improving the efficiency of low performing business units;
- continued standardization of processes across the organization;
- leveraging the fixed cost structure of the Company through accretive acquisitions and volume growth;
- controlling variable cost increases and reducing fixed costs; and
- producing free cash flow and using that to maximize shareholder value and our return on capital through a combination of dividends, share repurchases and accretive tuck-in acquisitions.

Net income for the quarter was $216 million, or $0.37 per diluted share, as compared with $176 million, or $0.30 per diluted share, in the second quarter of 2003. Net income before cumulative effects of changes in accounting principles for the six months ended June 30, 2004 was $360 million, or $0.62 per diluted share, as compared with $283 million, or $0.48 per diluted share, for the six months ended June 30, 2003. The increase in net income for both the three and six months ended June 30, 2004 was primarily a result of leveraging our fixed cost structure on a growing revenue base to offset certain other rising components of cost.

Revenues for the current quarter were up $204 million, or 7%, to $3.14 billion, as compared with the second quarter 2003. For the six months ended June 30, 2004, our operating revenues were $6.03 billion, a 7% increase as compared with the six months ended June 30, 2003. More than half of the revenue increase for both the three and six month periods was from internal growth, which reflects improved general business conditions as well as the success of our sales initiatives.

Internal revenue growth from volumes, at 2.5%, was the highest we have experienced in any quarter since the second quarter of 2000. We had noted improving volumes beginning late in the first quarter, and those higher volumes continued throughout the second quarter. We believe the higher volumes are primarily a result of improved general economic conditions, resulting in, among other things, a substantial increase in construction and demolition activity in the U.S. Accordingly, our volumes were most improved in the landfill and roll-off lines of business, with smaller volume increases experienced in the residential and commercial lines of business. Strong volumes have continued during the first few weeks of July, and we are optimistic that revenue growth from volumes during the second half of 2004 will continue in the 2% range that we experienced for the first half of the year.

Average yield increase on base business was 0.4% in the second quarter of 2004. While we continue to have reasonable success implementing annual price increases to our collection customer base, we have experienced increased price competition in the collection business in many markets. This increased competition has been characterized by both offers from competitors to our existing customers to provide the same services at lower prices than we are charging, and lower average rates being offered by the competition on new business bids. The price competition is the greatest in our Midwest Group, an area where we experienced negative yield in the second quarter.

We have paid approximately $263 million, net, for acquisitions since the second quarter of 2003. The effect of these acquisitions was an increase of 2.5% in second quarter 2004 net revenues as compared to the prior year's quarter. Our acquisition program is directed towards leveraging our fixed cost infrastructure by improving our collection route density and increasing waste volumes disposed of at our own facilities.

We continue our efforts to reduce costs as a percent of revenue. Despite year-over-year employee wage increases, higher fuel prices, increased costs related to redirecting certain waste to more distant landfills, increased rebates to customers associated with higher overall recycling commodity prices, and other various cost increases, we held our total operating expenses as a percentage of revenue relatively flat for both the second quarter and six-month period in 2004 as compared with the corresponding prior year periods. We continue, however, to seek cost-cutting opportunities within our operating costs. The current results of our cost-cutting efforts are more evident within our selling, general and administrative costs, which decreased as a percentage of revenue year-over-year for both the quarter and six-month period. A fundamental administrative cost reduction effort that commenced during the first half of 2004 is the consolidation of our credit and collection activities into a single location. In late 2005, we plan to begin consolidation of our billing activities as well, which is expected to further reduce SG&A costs in future years. Our goal is to reduce SG&A as a percentage of revenue to below 10%.

We believe that the production of free cash flow is a very important measure to our shareholders, as it is indicative of our ability to pay our quarterly dividends, buy back stock and execute our acquisition program. Our free cash flow was $238 million for the quarter and $549 million for the six-month period. We calculate free cash flow by subtracting capital expenditures from net cash provided by operating activities, and adding to that the proceeds from divestitures, net of cash divested, and other sales of assets, as shown in the table below (in millions).

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Net cash provided by operating activities	$ 549	$1,019
Capital expenditures	(345)	(526)
Proceeds from divestitures of businesses, net of cash divested	34	56
Free cash flow	$ 238	$ 549

We are projecting full-year 2004 free cash flow to be at the high end of the $900 million to $1 billion range, based on estimated net cash provided by operating activities toward the high end of the $2.1 billion to $2.2 billion range, capital expenditures of between $1.25 billion and $1.3 billion, and proceeds from divestitures, net of cash divested, and other sales of assets of $75 to $100 million. However, our proceeds from divestitures could be more than is currently projected, as we are subject to a Divestiture Order from the Canadian Competition Bureau, requiring us to divest of one of our landfills in Canada. The timing of the divestiture is uncertain due to legal and regulatory motions, but compliance with the current Order would mean the divestiture would close in the second half of this year. While the divestiture may significantly impact our free cash flow, we do not believe that it will have a material adverse effect on our results of operations.

Critical Accounting Estimates and Assumptions

In preparing our financial statements, we make several estimates and assumptions that affect the accounting for and recognition of our assets and liabilities and revenues and expenses. We must make these estimates and assumptions because certain of the information that we use is dependent on future events, cannot be calculated with a high degree of precision from available data or is simply not capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment. The most difficult, subjective and complex estimates and the assumptions that deal with the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities and asset impairments, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2003.

Results of Operations for the Three and Six Months Ended June 30, 2004

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

	Period to Period Change For the Three Months Ended June 30, 2004 and 2003		Period to Period Change For the Six Months Ended June 30, 2004 and 2003	
Statement of Operations:				
Operating revenues	$204	7.0 %	$368	6.5 %
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	134	7.0	245	6.6
Selling, general and administrative	16	5.3	9	1.4
Depreciation and amortization	23	7.1	46	7.3
Restructuring	(23)	*	(43)	*
Asset impairments and unusual items	(3)	*	(11)	*
	147	5.8	246	4.9
Income from operations	57	14.8	122	18.4
Other income (expense):				
Interest expense, net	(6)	(5.7)	(9)	(4.2)
Equity in earnings (losses) of unconsolidated entities	(25)	*	(45)	*
Minority interest	(7)	*	(13)	*
Other, net	(4)	(100.0)	(9)	(128.6)
	(42)	(40.8)	(76)	(36.7)
Income before cumulative effect of changes in accounting principles and income taxes	15	5.3	46	10.1
Provision for income taxes	25	23.6	31	17.8
Income before cumulative effect of changes in accounting principles	$ 40	22.7 %	$ 77	27.2 %

* Percentage change is not meaningful. Please refer to the explanations of these items included herein for a discussion of the relationship between current year and prior year activity.

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

	June 30,		June 30,	
	2004	2003	2004	2003
Statement of Operations:				
Operating revenues	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Operating (exclusive of depreciation and amortization shown below)	65.0	64.9	65.6	65.5
Selling, general and administrative	10.1	10.3	10.5	11.0
Depreciation and amortization	11.1	11.1	11.2	11.1
Restructuring	—	0.8	—	0.8
Asset impairments and unusual items	(0.3)	(0.2)	(0.3)	(0.1)
	85.9	86.9	87.0	88.3
Income from operations	14.1	13.1	13.0	11.7
Other income (expense):				
Interest expense, net	(3.5)	(3.6)	(3.7)	(3.7)
Equity in earnings (losses) of unconsolidated entities	(0.8)	—	(0.7)	—
Minority interest	(0.3)	—	(0.3)	—
Other, net	—	0.1	—	0.1
	(4.6)	(3.5)	(4.7)	(3.6)
Income before cumulative effect of changes in accounting principles and income taxes	9.5	9.6	8.3	8.1
Provision for income taxes	2.6	3.6	2.3	3.1
Income before cumulative effect of changes in accounting principles	6.9 %	6.0 %	6.0 %	5.0 %

Operating Revenues

Our operating revenues for the three months ended June 30, 2004, were $3.1 billion, compared with $2.9 billion in 2003. For the six months ended June 30, 2004, our operating revenues were $6.0 billion, as compared with $5.7 billion in 2003. Shown below (in millions) is the contribution to revenues during each period provided by our seven operating Groups and our Other North American Solid Waste, or NASW, services.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Canadian	$ 157	$ 150	$ 298	$ 267
Eastern	1,054	1,005	1,975	1,887
Midwest	601	574	1,128	1,080
Southern	811	762	1,602	1,504
Western	676	637	1,315	1,252
Wheelabrator	211	203	407	402
Recycling	189	139	361	272
Other NASW	56	48	111	94
Intercompany	(617)	(584)	(1,163)	(1,092)
	$3,138	$2,934	$ 6,034	$ 5,666

Our operating revenues generally come from fees charged for our collection, landfill, transfer, Wheelabrator (waste-to-energy facilities and independent power production plants) and recycling services. The mix of operating revenues from our different services is reflected in the table below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Collection	$2,059	$1,950	$ 4,023	$ 3,817
Landfill	773	735	1,437	1,363
Transfer	441	410	810	752
Wheelabrator	211	203	407	402
Recycling and other	271	220	520	424
Intercompany	(617)	(584)	(1,163)	(1,092)
	$3,138	$2,934	$ 6,034	$ 5,666

The following table provides details associated with the period-to-period change in NASW 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 June 30, 2004 and 2003		Period to Period Change for the Six Months Ended June 30, 2004 and 2003	
Average yield:				
Base business	$ 11	0.4%(a)	$ 26	0.4%(a)
Commodity	42	1.4 (b)	73	1.3 (b)
Electricity	—	—	—	—
Fuel surcharge and fees	9	0.3	10	0.2
Total	62	2.1	109	1.9
Volume	71	2.5 (c)	107	1.9 (c)
Internal growth	133	4.6	216	3.8
Acquisitions	73	2.5 (d)	143	2.5 (d)
Divestitures	(6)	(0.2)	(11)	(0.2)
Foreign currency translation	4	0.1	20	0.4
	$204	7.0%	$368	6.5%

a) Average yield from our collection, transfer, and waste-to-energy operations has increased our base business revenues for both the three and six months ended June 30, 2004. In our collection business we have seen the most substantial yield improvements in our commercial and residential operations, where base business pricing improvements in the East and the West have made the most significant contributions. Although the yields provided by our collection operations have been positive, our yield improvements have been reduced by increased price competition, particularly in the Midwest, and the unfavorable impact of lower priced recycling and yard waste service programs in the South. The Eastern portion of the United States is also the primary contributor to the average yield improvements in our transfer business that have been experienced throughout the year. The yield increases during 2004 have been partially offset by average yield declines in our special waste landfill operations, where we continued to be affected by lower prices in the Southern portion of the United States.

b) Revenue was positively affected by price increases in all of the recycling commodities that we process. However, a significant portion of increases from commodity prices are rebated to our suppliers, increasing our cost of goods sold. The majority of the improvement in commodity pricing during the three and six months ended June 30, 2004 was attributable to increases in the prices of old corrugated cardboard, old newsprint, plastics, high-grade paper and mixed-grade paper.

c) During both the three and six months ended June 30, 2004, we experienced volume-related revenue increases in our collection, transfer, and landfill businesses, which have been driven principally by our Southern and Western Groups. Each of our operating groups has experienced volume increases in its industrial collection operations in 2004, accounting for our most significant volume-related revenue increases of the six months ended June 30, 2004. We believe that a relatively strong economic environment has driven our volume-related revenue improvements, and we are optimistic this trend will continue into the third and fourth quarters. These revenue improvements were partially offset by volume declines experienced by our residential collection operations in the Eastern United States and our waste-to-energy facilities.

d) This increase is primarily related to our acquisition of collection assets from Allied Waste Industries, Inc. in the third and fourth quarters of 2003. Other acquisitions of recycling, transfer and waste-to-energy businesses consummated in the second half of 2003 also provided notable increases in revenues during the current period.

Operating Expenses (Exclusive of Depreciation and Amortization Shown Below)

Operating expenses are (i) labor and related benefits, which include salaries and wages, related payroll taxes, insurance and benefits costs and the costs associated with contract labor; (ii) transfer and disposal costs, which include tipping fees paid to third party disposal facilities and transfer stations; (iii) maintenance and repairs relating to both equipment and facilities; (iv) subcontractor costs, which include the costs of independent haulers who transport our waste to disposal facilities; (v) costs of goods sold, which are primarily the rebates paid to suppliers associated with recycling commodities; (vi) fuel costs, which represent the costs of fuel and oils to operate our truck fleet and landfill operating equipment; (vii) disposal and franchise fees and taxes, which include landfill taxes, host community fees and royalties; and (viii) other operating costs, which include equipment and facility rent, property taxes, insurance and claims costs, and landfill operating costs.

The following table summarizes the major components of our operating expenses, including the impact of foreign currency translation, for the three and six months ended June 30, 2004 and 2003 (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
Labor and related benefits	$ 728	$ 693	$ 35 (a)	$1,435	$1,352	$ 83 (a)
Transfer and disposal costs	331	304	27 (b)	620	571	49 (b)
Maintenance and repairs	172	174	(2)	356	350	6
Subcontractor costs	204	174	30 (c)	382	329	53 (c)
Cost of goods sold	152	121	31 (d)	292	238	54 (d)
Fuel	96	80	16 (e)	183	165	18 (e)
Disposal and franchise fees and taxes	160	151	9	304	287	17
Other	197	209	(12)(f)	388	423	(35)(f)
	$2,040	$1,906	$134	$3,960	$3,715	$245

a) These increased costs are the result of (i) higher salaries and hourly wages as compared to prior year due to annual merit increases; (ii) increased overtime costs due in part to increased volumes; and (iii) salary costs related to acquisitions made in the second half of 2003 and early 2004. Additionally, we have experienced higher employee benefit costs in 2004 than in the prior year. These increases have been partially offset by savings realized as a result of our February 2003 restructuring and June 2003 workforce reduction.

b) The increases are due principally to volume increases from both general operating activities and acquisitions.

c) These costs have increased primarily due to our volume increases. Also contributing to these increases is the impact of acquisitions we made in the third quarter of 2003 and additional transportation costs experienced by our Eastern Group due to capacity constraints at some of our landfills.

d) Our Recycling Group provides our recycling suppliers with rebates that are driven by market prices of recyclable commodities. The increase in cost of goods sold correlates directly to the increase in the market prices of these commodities. We factor these increased costs into our pricing, thus increasing the related revenue stream, resulting in a relatively insignificant net impact on our operating results.

e) We experienced an average increase of $0.24 per gallon for the current quarter and $0.11 per gallon for the year-to-date period when compared with the corresponding prior year periods. However, a very significant portion of this cost increase is offset by our fuel surcharges to customers.

f) A portion of the decrease is due to the recovery of claims against insurers for the reimbursement of environmental expenses. However, the primary contributor to the decrease is the impact of the December 31, 2003 consolidation of two special purpose type variable interest entities from which we lease three waste-to-energy facilities. Prior to the consolidation of these entities, we accounted for these arrangements as operating leases. The consolidation of these entities has, therefore, resulted in a decline in rental expense in 2004; however, the decrease to other operating costs was partially offset by increases in depreciation, interest expense and minority interest expense.

Selling, General and Administrative

Selling, general and administrative expenses are (i) labor costs, which include salaries, related insurance and benefits, contract labor, and payroll taxes; (ii) professional fees, which include fees for consulting, legal, audit, and tax services; (iii) provision for bad debts, which includes allowances for uncollectible customer accounts and collection fees; and (iv) other general and administrative expenses, which include voice and data telecommunications, advertising, travel and entertainment, rentals, postage, and printing.

The following table summarizes the major components of our selling, general and administrative costs for the three and six months ended June 30, 2004 and 2003 (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
Labor and related benefits	$186	$177	$ 9 (a)	$373	$371	$ 2 (a)
Professional fees	41	40	1	73	72	1
Provision for bad debts	10	13	(3)	24	25	(1)
Other	80	71	9 (b)	163	156	7 (b)
	$317	$301	$16	$633	$624	$ 9

a) Labor-related costs were relatively consistent year-over-year even though we experienced increased costs in the second quarter of 2004. The increased costs were the result of (i) an increase in commission costs due to comparatively higher operating revenues; (ii) higher salaries and hourly wages as compared with prior year due to annual merit increases that were partially offset by the 2003 restructurings; and (iii) current period severance-related expenses. These costs were offset in the six-month period by a decrease in costs due to a decline in the use of contract labor as compared with the prior year and achieving lower insurance costs, primarily in the first three months of 2004.

b) In 2003, we obtained a favorable settlement of a legal dispute, which is the main factor causing a year-over-year increase in other SG&A costs that otherwise were relatively consistent.

Other Components of Income From Operations

The following table summarizes the remaining components of income from operations for the three and six months ended June 30, 2004 and 2003 (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
Depreciation and amortization	$348	$325	$ 23 (a)	$673	$627	$ 46 (a)
Restructuring	—	23	(23)(b)	—	43	(43)(b)
Asset impairments and unusual items	(9)	(6)	(3)(c)	(18)	(7)	(11)(c)

a) The increases are primarily related to (i) an increase in landfill airspace amortization due to higher volumes at our landfills and an increase in the per ton amortization rate; (ii) increased information technology depreciation expense recognized as a result of placing additional enterprise-wide software systems into service during the latter half of 2003; and (iii) increased depreciation expense for our Wheelabrator Group as a result of consolidating two variable interest entities.

b) In February 2003 we reduced the number of market areas that make up our geographic operating Groups and reduced certain overhead positions to streamline our organization. As a result, we incurred approximately $20 million in one-time employee severance and benefit costs. The operational efficiencies provided by the February 2003 organizational changes enabled us to further reduce our workforce in June 2003. In the second quarter of 2003, we recorded $23 million of pre-tax charges for employee severance and benefit costs associated with this workforce reduction.

c) These gains for all periods relate primarily to divestiture activity. Specifically, during the first quarter of 2004 we divested certain Port-O-Let® operations for a gain of approximately $8 million and we recognized approximately $12 million in the second quarter of 2004 for adjustments to our estimated obligations associated with our non-solid waste services that were divested by March 31, 2002.

Income From Operations by Reportable Segment

The following table summarizes income from operations by reportable segment for the three and six months ended June 30, 2004 and 2003 and provides explanations of significant factors contributing to the identified variances (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
Canadian	$ 19	$ 17	$ 2	$ 30	$ 24	$ 6
Eastern	101	91	10 (a)	169	149	20 (a)
Midwest	89	84	5	153	142	11
Southern	158	141	17 (b)	317	281	36 (b)
Western	91	83	8	183	167	16
Wheelabrator	81	71	10 (c)	126	113	13
Recycling	12	(1)	13 (d)	17	(1)	18
Other NASW	(7)	(9)	2	(12)	(6)	(6)
Total NASW	$544	$477	$67	$983	$869	$114

a) The increases were driven primarily by (i) internal revenue growth of 2.4% for the second quarter and 2.0% year-to-date, largely due to increased average yield across all major lines of business, which was partially offset by volume declines in landfill operations during the first quarter and volume declines in residential collection operations throughout the year; (ii) the absence of one-time employee severance and benefit costs incurred as part of the February and June 2003 restructurings; (iii) the absence of higher operating expenses incurred because of the harsh weather conditions during the first quarter of 2003; and (iv) acquisitions. These earnings improvements were partially offset by increased costs for the transportation of waste and labor and an increase in landfill amortization expense.

b) Operating income in 2004 has been favorably affected by (i) positive internal revenue growth of 3.2% for the second quarter and 3.0% year-to-date, largely due to volume increases in higher margin landfill operations; (ii) acquisitions; (iii) the 2003 impact of one-time employee severance and benefit costs incurred as part of the February and June 2003 restructurings; and (iv) various operating and administrative cost reductions.

c) This increase was due in large part to (i) positive internal revenue growth of 1.7% driven by improved electricity pricing and average yield improvements on long-term disposal contracts; and (ii) the consolidation of two special purpose variable interest entities on December 31, 2003, which has increased income from operations as a result of decreased operating costs, partially offset by increases in depreciation expense (the impact of the consolidation of these entities on income before income taxes is further reduced by increases in interest expense and minority interest expense). The comparison of the current quarter's operating results with the same quarter of the prior year is also affected by an $11 million favorable settlement of a legal dispute during the second quarter of 2003.

d) The Recycling Group's 2004 operating revenues have been favorably affected by significantly higher market prices for recycling commodities. Improvements in the market prices for these commodities provide marginal increases to our income from operations because a substantial portion of changes in market prices are generally passed on as rebates to our suppliers. These favorable market conditions, and to a lesser extent, accretive acquisitions were the primary drivers of the current quarter's increase in earnings.

Other Components of Income Before Cumulative Effect of Changes in Accounting Principles

The following summarizes the other major components of our income before cumulative effect of changes in accounting principles for the three and six months ended June 30, 2004 and 2003 (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2004	2003	Change	2004	2003	Change
Interest expense, net	$112	$106	$ 6	$222	$213	$ 9
Equity in losses (earnings) of unconsolidated entities	24	(1)	25 (a)	43	(2)	45 (a)
Minority interest	9	2	7 (b)	16	3	13 (b)
Other, net	—	(4)	4	2	(7)	9
Provision for income taxes	81	106	(25)(c)	143	174	(31)(c)

a) In the first and second quarters of 2004, we acquired an equity interest in two coal-based synthetic fuel production facilities. We account for our investments in these entities using the equity method of accounting and their related losses are the reason for the quarter-over-quarter and year-over-year change in equity in losses (earnings) of unconsolidated entities.

b) The increase is primarily attributable to the consolidation of two special purpose type variable interest entities on December 31, 2003 as a result of our implementation of FIN 46.

c) The tax benefits that we will realize as a result of the investments discussed in footnote (a) have been reflected as a reduction to our provision for income taxes. This resulted in a decrease in our tax provision of approximately $35 million for the three months ended June 30, 2004 and approximately $54 million for the six months ended June 30, 2004, which more than offset the equity losses and interest expense realized during each period. Additionally, our current year tax provision includes the realization of the net benefit of audit settlements that occurred during the first and second quarters of 2004. This decrease in our tax provision has been partially offset by an increase in our overall provision for income taxes as a result of the increase in our consolidated pre-tax income.

Cumulative Effect of Changes in Accounting Principles

On March 31, 2004, we recorded a credit of approximately $8 million, net of tax, or $0.01 per diluted share, as a cumulative effect of change in accounting principle as a result of the consolidation of previously unrecorded trusts as required by Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities.* See Note 9 to the condensed consolidated financial statements.

In the first quarter of 2003, we recorded a charge of $46 million, net of taxes, to cumulative effect of changes in accounting principles for the adoption of certain accounting changes described below.

- Through December 31, 2002, we accrued in advance for major repairs and maintenance expenditures and deferred costs associated with annual plant outages at our waste-to-energy facilities and independent power production plants. Effective January 1, 2003, we changed our policy from that method to one that expenses such costs as they are incurred. We recorded approximately $25 million, net of taxes, or $0.04 per diluted share, as a credit to cumulative effect of changes in accounting principles.

- Through December 31, 2002, we accrued for future losses under customer contracts that over the contract life were projected to have direct costs greater than revenues. Effective January 1, 2003, we changed our policy from that method to one that expenses such losses as they are incurred. We recorded approximately $30 million, net of taxes, or $0.05 per diluted share, as a credit to cumulative effect of changes in accounting principles.

- In connection with the adoption of SFAS No. 143, we recorded approximately $101 million, including tax benefit, or $0.17 per diluted share, in the first quarter of 2003 as a charge to cumulative effect of changes in accounting principles. Substantially all of this charge was related to the impact of changes in accounting for landfill final capping, closure and post-closure costs.

Liquidity and Capital Resources

General

As an organization that has consistently generated cash flows in excess of its reinvestment needs, our primary source of liquidity has been cash flows from operations. However, we operate in a capital-intensive business and continued access to various financing resources is vital to our continued financial strength. In the past, we have been successful in obtaining financing from a variety of sources on terms we consider attractive. Based on several key factors we believe are considered important by credit rating agencies and financial markets in determining our access to attractive financing alternatives, we expect to continue to maintain access to capital sources in the future. These factors include:

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

We continually monitor our actual and forecasted cash flows, our liquidity and our capital resources enabling us to plan for our present needs and fund unbudgeted business activities that may arise during the year as a result of changing business conditions or new opportunities. In addition to our working capital needs for the general and administrative costs of our ongoing operations, we have capital requirements for: (i) the construction and expansion of our landfills; (ii) additions to and maintenance of our trucking fleet; (iii) refurbishments and improvements at waste-to-energy and materials recovery facilities; (iv) the container and equipment needs of our operations; and (v) capping, closure and post-closure activities at our landfills. Beginning in 2002, we committed ourselves to providing our shareholders with a return on their investment through our share repurchase program, and in 2004 began a quarterly dividend program. We also continue to invest in acquisitions that we believe will provide continued growth in our core business.

Summary of Cash Balances and Debt Obligations

The following is a summary of our cash and debt balances as of June 30, 2004 and December 31, 2003 (in millions):

	June 30, 2004	December 31, 2003
Cash and cash equivalents	$ 553	$ 217
Debt:		
Current portion	$ 775	$ 514
Long-term portion	7,947	7,997
Total debt	$8,722	$8,511
Increase in carrying value of debt due to hedge accounting for interest rate swaps	$ 99	$ 168

Cash and cash equivalents — Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper purchased with original maturities of three months or less. The changes in our cash balance from December 31, 2003 are discussed in the "Summary of Cash Flow Activity" section below.

Debt

Revolving credit and letter of credit facilities — The table below summarizes the credit capacity, maturity and outstanding letters of credit under each of our revolving credit facilities and principal letter of credit facilities outstanding at June 30, 2004 (in millions). In addition to this credit capacity, we have various arrangements pursuant to which we had an additional $87 million in outstanding letters of credit at June 30, 2004.

Facility	Total Credit Capacity	Maturity	Outstanding Letters of Credit
Three-year revolving credit facility(a)	$ 650	June 2005	$ 179
Five-year revolving credit facility(a)	1,750	June 2006	1,252
Five-year letter of credit and term loan agreement(b)	15	June 2008	15
Five-year letter of credit facility(b)	350	December 2008	336
Seven-year letter of credit and term loan agreement(b)	175	June 2010	174
Ten-year letter of credit and term loan agreement(b)	105	June 2013	96
Total	$3,045		$2,052

a) These facilities provide us with credit capacity that may be used for either cash borrowings or letters of credit. At June 30, 2004, no borrowings were outstanding under these facilities, and we had unused and available credit capacity of approximately $969 million.

b) These facilities have been established to provide us with letter of credit capacity. In the event of an unreimbursed draw on a letter of credit, the reimbursed amount generally converts into a term loan for the remaining term under the respective agreement or facility. Through June 30, 2004 we had not experienced any unreimbursed draws on our letters of credit.

We have used each of these facilities to support letters of credit that we issue to support our insurance programs, certain tax-exempt bond issuances, municipal and governmental waste management contracts, closure and post-closure obligations and disposal site or transfer station operating permits. These facilities require us to pay fees to the lenders and our obligation is generally to repay any draws that may occur on the letters of credit. We expect that similar facilities will continue to serve as a cost efficient source of this form of financial assurance in the future, and we continue to assess our financial assurance requirements to ensure that we have adequate letter of credit and surety bond capacity in advance of our business needs.

The letters of credit we have issued generally have a one-year term, and therefore, the three-year $650 million syndicated revolving credit facility, which matures in June 2005, is no longer a viable source to support new letters of credit. Therefore, we are currently evaluating our credit capacity needs and considering alternatives for refinancing or extending the maturities of both our three and five-year revolving credit facilities.

Senior notes — During March 2004 we issued $350 million of 5.0% senior notes due March 15, 2014. The net proceeds of the offering were approximately $346 million after deducting underwriters' discounts and expenses. We used these proceeds to repay $150 million of 8.0% senior notes due April 30, 2004 and $200 million of 6.5% senior notes due May 15, 2004. We have $294 million of 7.0% senior notes due October 1, 2004 and $100 million of 7.0% senior notes due May 15, 2005. We currently expect to redeem these notes with available cash.

Tax-exempt bonds — We actively issue tax-exempt bonds as a means of accessing low-cost financing for capital expenditures. The proceeds from these financing arrangements are deposited directly into trust funds and may only be used for the specific purpose for which the money was raised, which is generally the construction of collection and disposal facilities. As we spend monies on the specific projects being financed, we are able to requisition cash from the trust funds. We issued approximately $163 million of tax-exempt bonds during the six months ended June 30, 2004, $35 million of which was issued to refinance higher rate tax-exempt bonds.

As of June 30, 2004, approximately $590 million of our tax-exempt bonds are remarketed weekly by a remarketing agent to effectively maintain a variable yield. If the remarketing agent is unable to remarket the bonds, then the remarketing agent can put the bonds to us. We obtain letters of credit, issued under our five-year revolving credit facility, to guarantee repayment of the bonds in this event. During the current quarter, we fixed the interest rates of approximately $379 million of tax-exempt bonds that had previously been remarketed on a weekly basis. With our use of interest rate derivatives, we were able to maintain our existing level of interest rate risk. Because our variable-rate tax-exempt bonds require letter of credit support, fixing the interest rates of these debt instruments resulted in a decrease in our financial assurance needs.

Tax-exempt project bonds — Tax-exempt project bonds are used by our Wheelabrator Group to finance the development of waste-to-energy facilities. The bonds generally require periodic principal installment payments. As of June 30, 2004, approximately $46 million of these bonds are remarketed either daily or weekly by a remarketing agent to effectively maintain a variable yield. If the remarketing agent is unable to remarket the bonds, then the remarketing agent can put the bonds to us. Repayment of these bonds has been guaranteed with letters of credit issued under our five-year revolving credit facility. Approximately $42 million of these bonds will be repaid with available cash within the next twelve months.

Convertible subordinated notes — We have approximately $34 million of convertible subordinated notes that mature January 24, 2005. Each $1,000 note is convertible into 18.9 shares of our common stock, subject to adjustment upon the occurrence of certain events. Upon any such conversion, we have the option to pay cash equal to the market value of the shares that would otherwise be issuable. We currently expect to redeem these notes with available cash.

Interest rate swaps — We manage the interest rate risk of our debt portfolio principally by using interest rate derivatives to achieve a desired position of fixed and floating rate debt. As of June 30, 2004, the interest payments on approximately $2.6 billion of our fixed rate debt have been swapped to variable rates, allowing us to maintain approximately 63% of our debt at fixed interest rates and approximately 37% at variable interest rates. Fair value hedge accounting for interest rate swap contracts increased the carrying value of debt instruments by approximately $99 million as of June 30, 2004 and approximately $168 million at December 31, 2003.

Summary of Cash Flow Activity

The following is a summary of our cash flows for the six months ended June 30, 2004 and 2003 (in millions):

	Six Months Ended June 30,		
	2004	**2003**	**Change**
Net cash provided by operating activities	$1,019	$1,073	$ (54)
Net cash used in investing activities	$ (383)	$ (512)	$ 129
Net cash used in financing activities	$ (298)	$ (97)	$(201)

Net Cash Provided by Operating Activities — Although cash flows from operating activities decreased $54 million during the six months ended June 30, 2004 as compared with the prior year period, if the $109 million favorable impact of the termination of interest rate swap agreements before their scheduled maturities in 2003 were excluded, our cash flows generated from operations actually increased by approximately $55 million. In general, our 2004 operating cash flows have been favorably affected by improved profitability. Specifically, our revenue increase of approximately $368 million year-over-year has significantly impacted both net income and our change in trade receivables, two important components of operating cash flow. We experienced a considerable increase in receivables during the six months ended June 30, 2004, which caused a $104 million unfavorable change in cash balances for the period. However, because our days sales outstanding increased only slightly from December 31, 2003, the increase in receivables and corresponding negative effect on cash balances can be attributed almost completely to increased revenues.

Net Cash Used in Investing Activities — The $129 million decrease in cash used in investing activities is primarily due to a $74 million decline in acquisition spending, from $172 million in the first six months of 2003 to $98 million in the first six months of 2004. This decline in acquisition spending is not expected to continue into the third and fourth quarters of 2004, and we currently expect total 2004 acquisition spending to be approximately $250 million. However, because of the uncertainty inherent in the cash requirements and timing of acquisition activity, it is possible that total 2004 spending could be anywhere within a range of $200 million to $300 million. Also contributing to the current period decrease was a $67 million increase in net receipts from restricted funds and a $22 million increase in proceeds from divestitures and other sales of assets, partially offset by a $25 million increase in capital expenditures. We expect that total 2004 capital expenditures will be in the range of $1.25 billion to $1.3 billion, which is a level of spending consistent with the $1.2 billion in cash resources used for capital expenditures in 2003.

Net Cash Used in Financing Activities — The primary reason for the $201 million increase in net cash used in financing activities is the payment of our quarterly dividends, which has resulted in $218 million in cash payments during the year. Our Board of Directors approved our quarterly dividend program during the first quarter of 2004. The program was initiated in the first quarter of 2004 when we declared our first quarterly dividend of $0.1875 per share of common stock. On May 17, 2004, we declared our second quarterly dividend, which was paid on June 25, 2004 to stockholders of record as of June 1, 2004. Based on shares outstanding as of June 30, 2004, continued quarterly dividend declarations by our Board of Directors of $0.1875 per common share would result in total annual payments of $436 million in 2004.

We paid approximately $108 million for share repurchases during the six months ended June 30, 2004, a $37 million increase from the $71 million we paid during the comparable prior year period. During the second quarter of 2004, we purchased approximately three million shares of our common stock for an average price of $28.89 per common share, or approximately $89 million, and in the first quarter made a cash payment of approximately $24 million to settle repurchases made in December 2003. Approximately $5 million of the share repurchases completed in the second quarter will be settled in cash in July. Pursuant to the repurchase program, management is authorized to repurchase up to $1 billion of common stock this year. However, we currently expect total 2004 share repurchases to be in the range of $400 million to $500 million. Since the inception of the repurchase program in February 2002, we have repurchased approximately 63.4 million shares of our common stock at a net cost of approximately $1.65 billion.

Net debt repayments during the six months ended June 30, 2004 were approximately $21 million, an increase of $20 million from the corresponding prior year period. The following summary shows our most significant borrowings and debt repayments made during the current year:

- proceeds of approximately $346 million from the March 2004 issuance of $350 million of 5.0% senior notes;
- repayment of $150 million of 8.0% senior notes that matured in April 2004 and $200 million of 6.5% senior notes that matured in May 2004; and
- repayments of approximately $2 million of tax-exempt bonds and $17 million of other debt.

Offsetting these net cash outflows are cash receipts of approximately $120 million for common stock option and warrant exercises, which is a $111 million increase in the cash generated by this activity year-over-year.

Off-Balance Sheet Arrangements

We are party to (i) lease agreements with unconsolidated variable interest entities and (ii) guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 8 to the condensed consolidated financial statements. These lease agreements are established in the ordinary course of our business and are designed to provide us with access to facilities at competitive, market-driven prices. Our third-party guarantee arrangements are generally established to support our financial assurance needs and landfill operations. These arrangements have not materially affected our financial position, results of operations or liquidity during the three or six-month periods ended June 30, 2004 nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

Seasonal Trends and Inflation

Our operating revenues tend to be somewhat lower in the winter months, primarily due to the lower volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to decrease during the winter months. Our first and fourth quarter results of operations typically reflect these seasonal trends. We also use the slower winter months for scheduled maintenance at our waste-to-energy facilities, so repair and maintenance expense is generally higher in our first quarter than in other quarters during the year. In addition, particularly harsh weather conditions may result in the temporary suspension of certain of our operations.

We believe that inflation has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, 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 4. *Controls and Procedures.*

Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the SEC within required time periods.

Changes in Internal Controls

We maintain a system of internal controls over financial reporting. In the second quarter of 2004, we completed the consolidation of the credit and collection function of our four geographic operating Groups within the United States. We do not believe this change has caused any significant deficiencies or material weaknesses in our internal controls over financial reporting.

PART II.

Item 1. *Legal Proceedings.*

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

Item 2. *Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.*

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share(a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(b)	Approximate Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs(c)
April 1st — 30th	—	—	—	$ 1 billion
May 1st — 31st	1,647,500	$28.44	1,647,500	$953 million
June 1st — 30th	1,439,800	$29.40	1,439,800	$911 million
Total	3,087,300	$28.89	3,087,300	$911 million

a) This amount represents the weighted average price paid per common share. This price includes a per share commission paid for all repurchases.

b) In February 2002, we announced that our Board of Directors had approved a stock repurchase program pursuant to which up to $1 billion of shares of our common stock could be purchased each year through 2004. All of our equity repurchases have been made pursuant to that program.

c) The disclosure of the maximum approximate dollar value of shares yet to be purchased under the program shown in the table above is required by the SEC. These amounts are not necessarily an indication of the amount we intend to repurchase in the remainder of the year and the program; they are merely the amounts we are authorized to repurchase pursuant to the program.

Item 4. *Submission of Matters to a Vote of Security Holders.*

We held our 2004 Annual Meeting of Stockholders on May 14, 2004. At the meeting, the following items were submitted to a vote of our stockholders:

- the election of nine director nominees;
- the ratification of the appointment by our Board of Directors of Ernst & Young, LLP as our independent auditors;
- the approval of our 2004 Stock Incentive Plan; and
- the approval of our 2005 Annual Incentive Plan.

The voting on these items was as follows:

Election of directors:

Director	Shares For	Shares Withheld
Pastora San Juan Cafferty	469,954,541	47,288,432
Frank M. Clark, Jr.	470,006,070	47,236,903
Robert S. Miller	500,782,727	16,460,246
A. Maurice Myers	498,482,452	18,760,521
John C. Pope	488,471,587	28,771,386
W. Robert Reum	473,324,428	43,918,545
Steven G. Rothmeier	469,983,264	47,259,709
David P. Steiner	501,382,573	15,860,400
Carl W. Vogt	485,339,216	31,903,757

Ratification of the appointment of Ernst & Young LLP:

Shares For	Shares Against	Shares Withheld
503,667,805	4,767,020	8,808,148

Approval of the 2004 Stock Incentive Plan:

Shares For	Shares Against	Shares Withheld
355,413,320	101,430,550	9,777,104

Approval of the 2005 Annual Incentive Plan:

Shares For	Shares Against	Shares Withheld
411,684,186	45,012,828	9,923,959

Item 6. ***Exhibits and Reports on Form 8-K.***

(a) *Exhibits:*

Exhibit No.		Description
10.1	—	Employment Agreement between the Company and Cherie C. Rice, dated July 17, 1998.
10.2	—	Employment Agreement between the Company and Greg A. Robertson, dated August 1, 2003.
12	—	Computation of Ratio of Earnings to Fixed Charges.
31.1	—	Certification Pursuant to Rule 15d — 14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, Chief Executive Officer.
31.2	—	Certification Pursuant to Rule 15d — 14(a) under the Securities Exchange Act of 1934, as amended, of Robert G. Simpson, Senior Vice President and Chief Financial Officer.
32.1	—	Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, Chief Executive Officer.
32.2	—	Certification Pursuant to 18 U.S.C. §1350 of Robert G. Simpson, Senior Vice President and Chief Financial Officer.

(b) *Reports on Form 8-K:*

In the second quarter of 2004, we filed Current Reports on Form 8-K on April 12th, April 26th, June 21st and June 25th (as amended on July 1st) in order to incorporate by reference into our universal shelf registration statement on Form S-3 certain legal opinions related to our issuance of shares of common stock upon exercise by various warrant holders of outstanding warrants.

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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/ ROBERT G. SIMPSON

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

WASTE MANAGEMENT, INC.

By: /s/ GREG A. ROBERTSON

Greg A. Robertson
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: July 29, 2004

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INDEX TO EXHIBITS

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EXHIBIT 10.1

EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC., for and on behalf of its affiliated corporations (collectively referred to as the "Company"), and CHERIE RICE (the "Employee") agree to enter into this EMPLOYMENT AGREEMENT (the "Agreement") dated as of July 17, 1998 as follows:

1. Employment.

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

2. Term of Employment.

The period of Employee's employment under this Agreement shall be for a period of one year, beginning on August 1, 1998, and shall be continually renewing for a period of one (1) year thereafter unless terminated pursuant to the provisions of Section 5 of this Agreement. Company.

3. Duties and Responsibilities.

(a) Employee shall serve as Vice President, Investor Relations. In such capacity, Employee shall perform such duties as may be assigned to Employee from time to time by Company.

(b) Employee shall faithfully serve the Company, devote Employee's full working time, attention and energies to the business of the Company and perform the duties under this Agreement to the best of Employee's abilities.

(c) Employee shall (i) comply with all applicable laws, rules and regulations, and all requirements of all applicable regulatory, self-regulatory, and administrative bodies; (ii) comply with the Company's rules, procedures, policies, requirements, and directions; and (iii) not engage in any other business or employment without the written consent of the Company except as otherwise specifically provided herein.

4. Compensation and Benefits.

(a) Base Salary. During the Employment Term, the Company shall pay Employee a base salary at the annual rate of one hundred thirty-seven thousand ($137,000.) dollars per year, or such higher rate as may be determined from time to time by the Company ("Base Salary"). Such Base Salary shall be paid in accordance with the Company's standard payroll practice for employees.

(b) Expense Reimbursement. The Company shall promptly reimburse Employee for the ordinary and necessary business expenses incurred by Employee in the performance of Employee's duties hereunder in accordance with the Company's customary practices applicable to employees, provided that such expenses are incurred and accounted for in accordance with the Company's policy.

(c) Benefit Plans. Employee shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, practices or arrangements, or any other benefit plan or arrangement, generally made available by the Company to employees of similar status and responsibilities ("similarly situated employees").

(d) Stock Options. Employee shall be awarded fifteen (15,000) Waste Management, Inc., stock options, subject to the approval of the Compensation Committee of the Board of Directors.

5. Termination of Employment.

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

(a) Death. Employee's employment hereunder shall terminate upon Employee's death.

(b) Total Disability. The Company may terminate Employee's employment hereunder upon Employee's becoming "Totally Disabled". For purposes of this Agreement, Employee shall be "Totally Disabled" if Employee is physically or mentally incapacitated so as to render Employee incapable of performing the usual and customary duties under this Agreement. Employee's receipt of disability benefits under the Company's long-term disability plan or receipt of Social Security disability benefits shall be deemed conclusive evidence of Total Disability for purpose of this Agreement; provided, however, that in the absence of Employee's receipt of such long-term disability benefits of Social Security benefits, the Company may, in its reasonable discretion (but based upon appropriate medical evidence), determine that Employee is Totally Disabled.

(c) Termination by the Company for Cause. The Company may terminate Employee's employment hereunder for "Cause" at any time after providing written notice to Employee.

(i) For purposes of this Agreement, the term "Cause" shall mean any of the following: (A) conviction of a crime (including conviction on a nolo contendere plea) involving a felony or, in the good faith judgment of the Company, fraud, dishonesty, or moral turpitude; (B) deliberate and continual refusal to perform employment duties reasonably requested by the

Company or an affiliate after thirty (30) days' written notice by certified mail of such failure to perform, specifying that the failure constitutes cause (other than as a result of vacation, sickness, illness or injury); (C) fraud or embezzlement determined in accordance with the Company's normal, internal investigative procedures consistently applied in comparable circumstances; (D) gross misconduct or gross negligence in connection with the business of the Company or an affiliate which has substantial effect on the Company or the affiliate; or (E) breach of any of the covenants set forth in Section 7 hereof.

(ii) An individual will be considered to have been terminated for Cause if the Company determines that the individual engaged in an act constituting Cause at any time prior to a payment date for an award, regardless of whether the individual terminates employment voluntarily or is terminated involuntarily, and regardless of whether the individual's termination initially was considered to have been for Cause.

(iii) Any determination of Cause under this Agreement shall be made by the Company after giving Employee a reasonable opportunity to be heard.

(d) Voluntary Termination by Employee. Employee may terminate employment hereunder at any time after providing ten (10) days' written notice to the Company.

(e) Termination by the Company without Cause. The Company may terminate Employee's employment hereunder without Cause at any time after providing written notice to Employee.

6. Compensation Following Termination of Employment.

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

(a) Termination by Reason of Death. In the event that Employee's employment is terminated by reason of Employee's death, the Company shall pay the following amounts to Employee's beneficiary or estate:

(i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement, and any vacation accrued to the date of death.

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

(b) Termination by Reason of Total Disability. In the event that Employee's employment is terminated by reason of Employee's Total Disability as determined in accordance with Section 5(b), the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the dates of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(iii) An amount equal to

(A) the Base Salary (at the rate in effect as of the date of Employee's Total Disability) which would have been payable to Employee if Employee had continued in active employment until the end of the six (6) month period beginning on the date of Employee's termination; reduced by

(B) the maximum annual amount of the long term disability benefits payable to Employee under the Company's long-term disability plan as determined prior to the reduction of such benefits under the terms of the plan for other disability income (if long-term disability [LTD] benefits are payable, pursuant to the terms of the applicable LTD plan, during the six (6) month period referred to in Section 6[b][iii][A] above).

Payment shall be made at the same time and in the same manner as such compensation would have been paid if Employee had remained in active employment until the end of such period.

(c) Termination for Cause or Voluntary Termination by Employee. In the event that Employee's employment is terminated by the Company for Cause pursuant to Section 5(c), or Employee terminates employment pursuant to Section 5(d), the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(d) Termination by the Company Without Cause. In the event that Employee's employment is terminated by the Company pursuant to Section 5(e) for reasons other than death, Total Disability or Cause, the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement, any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(iii) The Base Salary (at the rate in effect as of the date of Employee's termination) which would have been payable to Employee if Employee had continued in active employment until the end of the twelve (12) month period beginning on the date of Employee's termination. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Employee had remained in active employment until the end of such period. The Employee shall also be eligible for a bonus or incentive compensation payment to the extent bonuses are paid to similarly situated employees, pro-rated for the year in which the Employee is terminated, and paid when similarly situated employees are paid.

(iv) The Company completely at its expense will continue for Employee and Employee's spouse and dependents, group health plans, programs or arrangements, in which Employee was entitled to participate at any time during the twelve-month period prior to the date of termination, until the earlier of: (A) last day of period during which Employee receives payment in accordance with clause (iii) above; (B) Employee's death (provided that benefits payable to Employee's beneficiaries shall not terminate upon Employee's death); or (C) with respect to any particular plan, program or arrangement, the date Employee becomes covered by a comparable benefit provided by a subsequent employer.

(e) No Other Benefits or Compensation. Except as may be provided under this Agreement, under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Employee at the time of Employee's termination or resignation of employment, Employee shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation.

(f) Suspension or Termination of Benefits and Compensation. In the event that the Company, in its sole discretion determines that, without the Company's express written consent, Employee has

(i) directly or indirectly engaged in, assisted or have any active interest or involvement whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor, or any type of principal whatsoever, in any person, firm, or business entity which is directly or indirectly competitive with the Company or any of its affiliates, or

(ii) directly or indirectly, for or on behalf of any person, firm, or business entity which is directly or indirectly competitive with the Company or any of its affiliates (A) solicited or accepted from any person or entity who is or was a client of the Company during the term of Employee's employment hereunder or during any of the twelve calendar months preceding or following the termination of Employee's employment any business for services similar to those rendered by the Company, (B) requested or advised any present or future customer of the Company to withdraw, curtail or cancel its business dealings with the Company, or (C) requested or advised any employee of the Company to terminate his or her employment with the Company;

the Company shall have the right to suspend or terminate any or all remaining benefits payable pursuant to Section 6 of this Agreement. Such suspension or termination of benefits shall be in addition to and shall not limit any and all other rights and remedies that the Company may have against Employee.

7. Restrictive Covenants

In consideration of the specialized training Employee has received, the access Employee has had to confidential and proprietary information and other promises of the Company contained in this Agreement, Employee agrees as follows:

(a) Competitive Activity. Employee covenants and agrees that at all times during Employee's period of employment with the Company, and while Employee is receiving payments pursuant to Section 6 of this Agreement, Employee will not, directly or indirectly, engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is engaged in the same business as that conducted and carried on by the Company, without the Company's specific written consent to do so. Furthermore, for a period of one (1) year after the date of termination of Employee's employment, whether such termination is voluntary or involuntary, by wrongful discharge, or otherwise, or one (1) year following the cessation of payments made pursuant to Section 6 of this Agreement, whichever date is later, Employee will not directly or indirectly, within 75 miles of the principal place of business of the Company, the principal place of business of any corporation or other entity owned, controlled by (or otherwise affiliated with) the Company by which Employee may also be employed or served by Employee, or any other geographic location in which Employee has specifically represented the interests of the Company or such other affiliated entity, during the twelve (12) months prior to the termination of Employee's employment, engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is engaged in the same business as that conducted and carried on by the Company, without the Company's specific written consent to do so.

(b) Non-Solicitation. Employee covenants and agrees that at all times during Employee's period of employment with the Company, and for a period of one (1) year after the date of termination of Employee's employment, whether such termination is voluntary or involuntary, by wrongful discharge, or otherwise, or the date of the cessation of payments made to the Employee pursuant to Section 6 of this Agreement, whichever is later, Employee will not directly or indirectly (i) induce any customers of the Company or corporations affiliated with the Company; (iii) directly or indirectly request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; (iv) directly or indirectly disclose to any other person, firm or corporation the names or addresses of any of the customers of the Company or corporations affiliated with the Company; or (v) individually of through any person, firm, association or corporation with which Employee is now or may hereafter become associated, cause, solicit, entice, or induce any present or future employee of the Company, or any corporation affiliated with the Company to leave the employ of the Company, or such other corporation to accept employment with, or compensation from, the Employee or any such person, firm, association or corporation without the prior written consent of the Company.

(c) Non-Disparagement. Employee covenants and agrees that Employee shall not engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or good will of the Company, its management, or management of corporations affiliated with the Company.

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

8. Enforcement of Covenants.

(a) Termination of Employment and Forfeiture of Compensation. Employee agrees that any breach by Employee of any of the covenants set forth in Section 7 hereof during Employee's employment by the Company, shall be grounds for immediate dismissal of Employee and forfeiture of any accrued and unpaid salary, bonus, commissions or other compensation of such Employee as liquidated damages, which shall be in addition to and not exclusive of any and all other rights and remedies the Company may have against Employee.

(b) Right to Injunction. Employee acknowledges that a breach of the covenants set forth in Section 7 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages will be inadequate. Therefore, in the event of breach of anticipatory breach of the covenants set forth in this section by Employee, Employee and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; (i) injunctions, both preliminary and permanent, enjoining or retraining such breach or anticipatory breach and Employee hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (ii) recovery of all reasonable sums expended and costs, including reasonable attorney's fees, incurred by the Company to enforce the covenants set forth in this section.

(c) Separability of Covenants. The covenants contained in Section 7 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 7 exceed the time, geographic, or occupational limitations permitted by applicable laws, Employee and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding. Employee and the Company further agree that the covenants in Section 7 shall each be construed as a separate agreement independent of any other provisions of this Agreement, and the existence of any claim or cause of action by Employee against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 7.

9. Withholding of Taxes.

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

10. Non-Disclosure of Agreement Terms.

Employee agrees that Employee will not disclose the terms of this Agreement to any third party other than Employee’s immediate family, attorney, accountants, or other consultants or advisors or except as may be required by any governmental authority.

11. Source of Payments.

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

12. Assignment.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Employee.

13. Entire Agreement; Amendment.

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

14. Governing Law.

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

15. Notices.

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

To the Company:	Waste Management, Inc. 1001 Fannin, Suite 4000 Houston, Texas 77002 Attention: Corporate Secretary
To Employee:	At the address for Employee set forth below.

16. Miscellaneous.

(a) Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(b) Separability. Subject to Section 8 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified o be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

(c) Headings. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.

(d) Rules of Construction. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.

(e) Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

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

WASTE MANAGEMENT, INC.

By: /s/ Susan J. Piller

Name:

Title:

Date:

EMPLOYEE

/s/ Cherie C. Rice

Date: July 17, 1998

Address:

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

WASTE MANAGEMENT, INC. (the “Company”), and **Greg A Robertson** (the “Employee”) hereby enter into this EMPLOYMENT AGREEMENT (the “Agreement”) dated as of **August 1, 2003**, as follows:

1. Employment.

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

2. Term of Employment.

The period of Employee’s employment under this Agreement shall begin as of August 1, 2003, and shall continue for a period of one (1) year thereafter (the “Employment Term”), unless terminated pursuant to the terms of this Agreement. Employment beyond the Employment Term shall continue thereafter in accordance with the terms hereof, unless terminated pursuant to the terms of Sections 5 and 6 of this Agreement.

3. Duties and Responsibilities.

(a) Employee shall serve as Vice President, Assistant Controller, and shall be based at the Company’s corporate offices in Houston, Texas. Employee will report to SVP, Chief Accounting Officer, or as assigned by SVP, Chief Accounting Officer.

(b) Employee shall faithfully serve the Company, and/or its affiliated corporations, devote Employee’s full working time, attention and energies to the business of the Company, and/or its affiliated corporations, and perform the duties under this Agreement to the best of Employee’s abilities. Employee may make and manage his personal investments, provided such investments in other activities do not violate, in any material respect, the provisions of Section 8 of this Agreement.

(c) Employee shall (i) comply with all applicable laws, rules and regulations, and all requirements of all applicable regulatory, self-regulatory, and administrative bodies; (ii) comply with the Company’s rules, procedures, policies, requirements, and directions; and (iii) not engage in any other business or employment without the written consent of the Company, except as otherwise specifically provided herein.

4. Compensation and Benefits.

(a) **Base Salary.** During the Employment Term, the Company shall pay Employee an annual base salary of no less than ONE HUNDRED-NINETY NINE THOUSAND, FIVE HUNDRED DOLLARS ($199,500.00) per year, or such higher rate as may be determined from time to time by the Company (“Base Salary”). Such Base Salary shall be paid in accordance with the Company’s standard payroll practice for Employees.

(b) **Expense Reimbursement.** The Company shall promptly reimburse Employee for the ordinary and necessary business expenses incurred by Employee in the performance of the duties hereunder in accordance with the Company’s customary practices applicable to Employees, provided that such expenses are incurred and accounted for in accordance with the Company’s policy.

(c) **Benefit Plans.** Employee shall be eligible to participate in or receive benefits under any pension plan, profit sharing plan, medical and dental benefits plan, life insurance plan, short-term and long-term disability plans, supplemental and/or incentive compensation plans, or any other fringe benefit plan, generally made available by the Company to Employees working pursuant to this form of Agreement (hereinafter referred to as "Similarly Situated Employees").

(d) Incentive/Bonus. Employee shall be eligible for an annual bonus or incentive compensation payment ("Bonus") with an annual target bonus of fifty percent (50%) of Employee's Base Salary, a maximum of one hundred percent (100%) of Employee's Base Salary. Qualification and conditions for earning the Bonus shall be pursuant to the applicable Bonus Plan in effect for the year in which the bonus is earned, as approved by the Compensation Committee of the Board of Directors. The Bonus for the year 2003 will be paid in 2004, if earned, at the same time as Similarly Situated Employees receive or would otherwise receive their bonuses, provided Employee remains employed through the end of the 2003 calendar year.

(e) Stock Options. Employee shall be eligible to be considered for annual option grants. The award, vesting and exercise of all options shall be subject to the provisions of the applicable Waste Management, Inc. Stock Incentive Plan.

(f) Vacation. Employee will be entitled to paid vacation in accordance with the Company's policies but in no event less than three (3) weeks each year.

5. Termination of Employment.

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

(a) Death. Employee's employment hereunder shall terminate upon Employee's death.

(b) Total Disability. The Company may terminate Employee's employment hereunder upon Employee becoming "Totally Disabled". For purposes of this Agreement, Employee shall be "Totally Disabled" if Employee is physically or mentally incapacitated so as to render Employee incapable of performing Employee's usual and customary duties under this Agreement. Employee's receipt of disability benefits under the Company's long-term disability plan or receipt of Social Security disability benefits shall be deemed conclusive evidence of Total Disability for purpose of this Agreement; provided, however, that in the absence of Employee's receipt of such long-term disability benefits or Social Security benefits, the Company's Board of Directors may, in its reasonable discretion (but based upon appropriate medical evidence), determine that Employee is Totally Disabled.

(c) Termination by the Company for Cause. The Company may terminate Employee's employment hereunder for "Cause" at any time after providing written notice to Employee.

(i) For purposes of this Agreement, the term "Cause" shall mean any of the following: (A) conviction of a crime (including conviction on a nolo contendere plea) involving a felony or, in the good faith judgment of the Company's Board of Directors, fraud, dishonesty, or moral turpitude; (B) deliberate and continual refusal to perform employment duties reasonably requested by the Company or an affiliate after thirty (30) days' written notice by certified mail of such failure to perform, specifying that the failure constitutes cause (other than as a result of vacation, sickness, illness or injury); (C) fraud or embezzlement determined in accordance with the Company's normal, internal investigative procedures; (D) gross misconduct or gross negligence in connection with the business of the Company or an affiliate which has substantial effect on the Company or the affiliate; or (E) breach of any of the covenants set forth in Section 8 hereof.

(ii) An individual will be considered to have been terminated for Cause if the Company determines that the individual engaged in an act constituting Cause at any time prior to a payment date for any amounts due hereunder, regardless of whether the individual terminates employment voluntarily or is terminated involuntarily, and regardless of whether the individual's termination initially was considered to have been for Cause.

(iii) Any determination of Cause under this Agreement shall be made by resolution of the Company's Board of Directors adopted by the affirmative vote of not less than a majority of the entire membership of the Board of Directors at a meeting called and held for that purpose and at which Employee is given an opportunity to be heard.

(d) Voluntary Termination by Employee. Employee may terminate employment hereunder at any time after providing ninety (90) days' written notice to the Company, or for good reason as described in Section 7 of this Agreement.

(e) Termination by the Company without Cause. The Company may terminate Employee's employment hereunder without Cause at any time after providing written notice to Employee.

6. Compensation Following Termination of Employment.

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

(a) Termination by Reason of Death. In the event that Employee's employment is terminated by reason of Employee's death, the Company shall pay the following amounts to Employee's beneficiary or estate:

(i) Any accrued but unpaid Base Salary for services rendered to the date of death, any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination; a pro-rata "Bonus" or incentive compensation payment to the extent payments are awarded to Similarly Situated Employees and paid at the same time as Similarly Situated Employees are paid; and any vacation accrued to the date of death.

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

(iii) An amount equal to the Base Salary (at the rate in effect as of the date of Employee's death) which would have been payable to Employee if Employee had continued in employment for a period of twelve (12) months. Such amount shall be paid in a single lump sum cash payment within thirty (30) days after Employee's death.

(iv) As of the date of termination by reason of Employee's death, stock options awarded to Employee shall be fully vested and Employee's estate or beneficiary shall have up to one (1) year from the date of death to exercise all such options, provided that in no event will any option be exercisable beyond its term.

(b) Termination by Reason of Total Disability. In the event that Employee's employment is terminated by reason of Employee's Total Disability as determined in accordance with Section 5(b), the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination, any vacation accrued to the date of termination. Employee shall also be eligible for a Bonus or incentive compensation payment to the extent such awards are made to Similarly Situated Employees, pro-rated for the year in which Employee is terminated and paid at the same time as similarly situated Employees are paid.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(iii) The Base Salary (at the rate in effect as of the date of Employee's Total Disability) which would have been payable to Employee if Employee had continued in active employment for a period of twelve (12) months. Payment shall be made at the same time and in the same manner as such compensation would have been paid if Employee had remained in active employment until the end of such period.

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

(c) Termination for Cause. In the event that Employee's employment is terminated by the Company for Cause pursuant to Section 5(c), the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination, and any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

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

(d) Voluntary Termination by Employee. In the event that Employee terminates employment pursuant to Section 5(d), and other than for a resignation tendered pursuant to Section 7 of this Agreement, the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination, and any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

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

(e) Termination by the Company Without Cause. In the event that Employee's employment is terminated by the Company pursuant to Section 5(e) for reasons other than death, Total Disability or Cause, the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination, any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination, and any vacation accrued to the date of termination.

(ii) Any benefits to which Employee may be entitled pursuant to the plans, policies and arrangements referred to in Section 4(c) hereof shall be determined and paid in accordance with the terms of such plans, policies and arrangements.

(iii) An amount equal to the sum of Employee's annual Base Salary plus his or her target annual bonus (as then in effect), of which one-half shall be paid in a lump sum within ten (10) days after such termination and one-half shall be paid during the one (1) year period beginning on the date of Employee's termination and shall be paid at the same time and in the same manner as Base Salary would have been payable to Employee if Employee had continued in active employment until the end of such period.

(iv) In addition, if you timely elect under COBRA to continue the group health and/or dental insurance coverage you participated as of your employment termination date, the Company will pay the portion of the COBRA premium in excess of your regular employee premium contribution until the earlier of: (A) last day of period during which Employee receives payment in accordance with clause (iii) above; (B) Employee's death (provided that benefits payable to Employee's beneficiaries shall not terminate upon Employee's death); or (C) with respect to any particular plan, program or arrangement, the date Employee becomes entitled to be covered by a comparable benefit provided by a subsequent employer. Thereafter, if you have any remaining COBRA eligibility you will bear the full cost of continued COBRA coverage.

(v) Employee shall continue to vest in all stock option awards or restricted stock awards over the one (1) year period commencing on the date of such termination. Employee shall have ninety (90) days following the expiration of such one (1) year period to exercise all options to the extent then vested, provided that in no event will any option be exercisable beyond its term.

(f) No Other Benefits or Compensation. Except as may be provided under this Agreement, under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Employee at the time of Employee's termination or resignation of employment, Employee shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation. In no event shall Employee be entitled to receive any compensation or benefits under any such other plan or arrangement that is similar to the benefits provided by this Agreement.

(g) Suspension or Termination of Benefits and Compensation. In the event that the Company, in its sole discretion determines that, without the Company's express written consent, Employee has:

(i) directly or indirectly engaged in, assisted or have any active interest or involvement whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor, or any type of principal whatsoever, in any person, firm, or business entity which is directly or indirectly competitive with the Company or any of its affiliates, or

(ii) directly or indirectly, for or on behalf of any person, firm, or business entity which is directly or indirectly competitive with the Company or any of its affiliates (A) solicited or accepted from any person or entity who is or was a client of the Company during the term of Employee's employment hereunder or during any of the twelve calendar months preceding or following the termination of Employee's employment any business for services similar to those rendered by the Company, (B) requested or advised any present or future customer of the Company to withdraw, curtail or cancel its business dealings with the Company, or (C) requested or advised any employee of the Company to terminate his or her employment with the Company;

the Company shall have the right to suspend or terminate any or all remaining benefits payable pursuant to Section 6 of this Agreement. Such suspension or termination of benefits shall be in addition to and shall not limit any and all other rights and remedies that the Company may have against Employee.

7. Resignation by Employee for Good Reason and Compensation Payable

(a) Resignation for Good Reason following Change in Control. In the event a "Change in Control" (as defined in Section 7(c)) occurs, Employee will be paid the compensation described in this Section 7 if Employee resigns or is terminated (both a "resignation" and "termination" being referred to as "termination" for the purposes of this Section 7) from employment with the Company at any time prior to the six (6) month anniversary of the date of the Change in Control following the occurrence of any of the following events:

(i) without Employee's express written consent, the assignment to Employee of any duties inconsistent with Employee's positions, duties, responsibilities and status with the Company immediately before a Change in Control, or a material adverse change in Employee's reporting (other than a change which results in Employee reporting to a Senior Vice President of the Company or higher), responsibilities, titles or offices as in effect immediately before a Change in Control, or any removal of Employee from any of such positions, except in connection with the termination of Employee's employment as a result of death, or by the Company for Disability or Cause, or by Employee other than for the reasons described in this Section 7(a);

(ii) a reduction by the Company in Employee's Base Salary as in effect immediately before a Change in Control plus all increases therein subsequent thereto;

(iii) the failure of the Company substantially to maintain and to continue Employee's participation in the Company's benefit plans as in effect immediately before a Change in Control and with all improvements therein subsequent thereto (other than those plans or improvements that have expired thereafter in accordance with their original terms or those plans which are replaced with similar plans providing substantially similar benefits), or the taking of any action which would materially reduce Employee's benefits under any of such plans or deprive Employee of any material fringe benefit enjoyed by Employee immediately before a Change in Control, unless such reduction or termination is required by law (and excluding reductions or changes which are replaced by substantially similar benefits under other plans or programs);

(iv) the failure of the Company to provide Employee with an appropriate adjustment to compensation such as a lump sum relocation bonus, salary adjustment and/or housing allowance so that Employee can purchase comparable primary housing if required to relocate (it being the intention of this Section 7[a][iv] to keep the Employee "whole" if required to relocate). In this regard, comparable housing shall be determined by comparing factors such as location (taking into account, by way of example, items such as the value of the surrounding neighborhood, reputation of the public school district, if applicable, security and proximity to Employee's place of work), quality of construction, design, age, size of the housing and the ratio of the monthly payments including principle, interest, taxes and insurance to the Employee's take home pay, to housing most recently owned by Employee prior to, or as of the effective date of the Change in Control;

(v) the failure by the Company to pay Employee any portion of Employee's current compensation, or any portion of Employee's compensation deferred under any plan, agreement or arrangement of or with the Company, within seven (7) days of the date such compensation is due; or

(v) the failure by the Company to obtain an assumption of, and agreement to perform the obligations of the Company under this Agreement by any successor to the Company.

(b) Resignation for Good Reason following a forced reassignment. In the event that the employee resigns as a result of, and within the six month anniversary of the date of, a forced relocation that is more than fifty (50) miles from his current business location, Employee will be paid the compensation described in this Section 7.

(c) Compensation Payable. In the event that Employee terminates employment pursuant to Section 7(a) or (b), the Company shall pay the following amounts to Employee:

(i) Any accrued but unpaid Base Salary for services rendered to the date of termination; any accrued but unpaid expenses required to be reimbursed under this Agreement through the date of termination; any accrued and unused vacation to the date of termination.

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

(iii) An amount equal to the sum of Employee's annual Base Salary plus Employee's target annual bonus (in each case as then in effect). Such amount shall be paid to Employee in a single lump sum cash payment within ten (10) business days after the effective date of Employee's termination.

(iv) Employee will be 100% vested in all benefits, awards, and grants (including stock options) accrued but unpaid as of the date of termination under any non-qualified pension plan, supplemental and/or incentive compensation or bonus plans, in which Employee was a participant as of the date of termination. Employee shall have until the first anniversary of Employee's termination of employment in which to exercise the options which have vested pursuant to this section, but in no event beyond the term of the option.

Except as may be provided under this Section 7 or under the terms of any incentive compensation, employee benefit, or fringe benefit plan applicable to Employee at the time of Employee's resignation from employment, Employee shall have no right to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such resignation or termination. IN no event shall Employee be entitled to receive any compensation or benefits under any such other plan or arrangement that is similar to the benefits provided under this Agreement.

(d) Certain Additional Payments by the Company. In the event that any portion of the benefits payable under this Agreement, and any other payments and benefits under any other agreement with, or plan of the Company to or for the benefit of the Employee (in aggregate, "Total Payments") constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code (the "Code"), then the Company shall pay the Employee as promptly as practicable following such determination an additional amount (the "Gross-up Payment") calculated as described below to reimburse the Employee on an after-tax basis for any excise tax imposed on such payments under Section 4999 of the Code. The Gross-up Payment shall equal the amount, if any, needed to ensure that the net parachute payments (including the Gross-up Payment) actually received by the Employee after the imposition of federal and state income, employment and excise taxes (including any interest or penalties imposed by the Internal Revenue Service), are equal to the amount that the Employee would have netted after the imposition of federal and state income and employment taxes, had the Total Payments not been subject to the taxes imposed by Section 4999. For purposes of this calculation, it shall be assumed that the Employee's tax rate will be the maximum federal rate to be computed with regard to Section 1(g) of the Code.

In the event that the Employee and the Company are unable to agree as to the amount of the Gross-up Payment, if any, the Company shall select a law firm or accounting firm from among those regularly consulted (during the twelve-month period immediately prior to a Change-in-Control) by the Company regarding federal income tax matters and such law firm or accounting firm shall determine the amount of Gross-up Payment and such determination shall be final and binding upon the Employee and the Company.

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

(i) Any transfer to, assignment to, or any acquisition by any person, corporation or other entity, or group thereof, of the beneficial ownership, within the meaning of Section 13(d) of the Securities Exchange Act of 1934, of any securities of the Company, which transfer, assignment or acquisition results in such person, corporation, entity, or group thereof, becoming the beneficial owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) As a result of a tender offer, merger, consolidation, sale of assets, or contested election, or any combination of such transactions, the persons who were directors immediately before the transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company.

8. Restrictive Covenants

(a) Competitive Activity. Employee covenants and agrees that at all times during Employee's period of employment with the Company, and during the period that payments are made to Employee pursuant to Section 6 of this Agreement, Employee will not engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is engaged in the same business as that conducted and carried on by the Company, without the Company's specific written consent to do so. Employee further agrees that for a period of one (1) year after the date payments made to Employee pursuant to Section 6 of this Agreement cease, or for a period of two (2) years following the date of termination, whichever is later, Employee will not, directly or indirectly, within 75 miles of any operating location of any affiliate of the Company, engage in, assist, or have any active interest or involvement, whether as an employee, agent, consultant, creditor, advisor, officer, director, stockholder (excluding holding of less than 1% of the stock of a public company), partner, proprietor or any type of principal whatsoever in any person, firm, or business entity which, directly or indirectly, is engaged in the same business as that conducted and carried on by the Company or any of its affiliated companies, without the Company's specific written consent to do so.

(b) Non-Solicitation. Employee covenants and agrees that at all times during Employee's period of employment with the Company, and for a period of one (1) year after the date payments made to Employee pursuant to Section 6 of this Agreement cease, or two (2) years after the date of termination of the Employee's employment, whichever date is later, whether such termination is voluntary or involuntary by wrongful discharge, or otherwise, Employee will not directly or indirectly (i) induce any customers of the Company or corporations affiliated with the Company to patronize any similar business which competes with any material business of the Company; (ii) canvass, solicit or accept any similar business from any customer of the Company or corporations affiliated with the Company; (iii) directly or indirectly request or advise any customers of the Company or corporations affiliated with the Company to withdraw, curtail or cancel such customer's business with the Company; (iv) directly or indirectly disclose to any other person, firm or corporation the names or addresses of any of the customers of the Company or corporations affiliated with the Company; or (v) individually of through any person, firm, association or corporation with which Employee is now or may hereafter become associated, cause, solicit, entice, or induce any present or future employee of the Company, or any corporation affiliated with the Company to leave the employ of the Company, or such other corporation to accept employment with, or compensation from, the Employee or any such person, firm, association or corporation without the prior written consent of the Company.

(c) Non-Disparagement. Employee covenants and agrees that Employee shall not engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including, without limitation, the repetition or distribution of derogatory rumors, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or good will of the Company, its management, or of management of corporations affiliated with the Company.

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

9. Enforcement of Covenants.

(a) Termination of Employment and Forfeiture of Compensation. Employee agrees that any breach by Employee of any of the covenants set forth in Section 8 hereof during Employee's employment by the Company, shall be grounds for immediate dismissal of Employee and forfeiture of any accrued and unpaid salary, bonus, commissions or other compensation of such Employee as liquidated damages, which shall be in addition to and not exclusive of any and all other rights and remedies the Company may have against Employee.

(b) Right to Injunction. Employee acknowledges that a breach of the covenants set forth in Section 8 hereof will cause irreparable damage to the Company with respect to which the Company's remedy at law for damages will be inadequate. Therefore, in the event of breach of anticipatory breach of the covenants set forth in this section by Employee, Employee and the Company agree that the Company shall be entitled to the following particular forms of relief, in addition to remedies otherwise available to it at law or equity; (i) injunctions, both preliminary and permanent, enjoining or restraining such breach or anticipatory breach and Employee hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (ii) recovery of all reasonable sums expended and costs, including reasonable attorney's fees, incurred by the Company to enforce the covenants set forth in this section.

(c) Separability of Covenants. The covenants contained in Section 8 hereof constitute a series of separate covenants, one for each applicable State in the United States and the District of Columbia, and one for each applicable foreign country. If in any judicial proceeding, a court shall hold that any of the covenants set forth in Section 8 exceed the time, geographic, or occupational limitations permitted by applicable laws, Employee and the Company agree that such provisions shall and are hereby reformed to the maximum time, geographic, or occupational limitations permitted by such laws. Further, in the event a court shall hold unenforceable any of the separate covenants deemed included herein, then such unenforceable covenant or covenants shall be deemed eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants to be enforced in such proceeding. Employee and the Company further agree that the covenants in Section 8 shall each be construed as ancillary to this Agreement, and the existence of any claim or cause of action by Employee against the Company whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of the covenants of Section 8.

10. Withholding of Taxes.

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

11. Non-Disclosure of Agreement Terms.

Employee agrees that Employee will not disclose the terms of this Agreement to any third party other than Employee's immediate family, attorney, accountants, or other consultants or advisors or except as may be required by any governmental authority.

12. Source of Payments.

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

13. Assignment.

Except as otherwise provided in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns. This Agreement shall not be assignable by Employee, and shall be assignable by the Company only to any financially solvent corporation or other entity resulting from the reorganization, merger or consolidation of the Company with any other corporation or entity or any corporation or entity to or with which the Company's business or substantially all of its business or assets may be sold, exchanged or transferred, and it must be so assigned by the Company to, and accepted as binding upon it by, such other corporation or entity in connection with any such reorganization, merger, consolidation, sale, exchange or transfer (the provisions of this sentence also being applicable to any successive such transaction).

14. Entire Agreement; Amendment.

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

15. Governing Law.

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

16. Notices.

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

To the Company:	Waste Management, Inc. 1001 Fannin, Suite 4000 Houston, Texas 77002 Attention: Corporate Secretary
To Employee:	At the address for Employee set forth below.

17. Miscellaneous.

(a) Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(b) Separability. Subject to Section 9 hereof, if any term or provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, such term or provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect.

(c) Headings. Section headings are used herein for convenience of reference only and shall not affect the meaning of any provision of this Agreement.

(d) Rules of Construction. Whenever the context so requires, the use of the singular shall be deemed to include the plural and vice versa.

(e) Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts will together constitute but one Agreement.

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

WASTE MANAGEMENT, INC.

By: /s/ Jimmy LaValley

Senior Vice-President

Date: 12/19/03

EMPLOYEE:

/s/ Greg A Robertson

Greg A Robertson

Address:

Date: 12/19/03

EXHIBIT 12

WASTE MANAGEMENT, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(In Millions, Except Ratios)
(Unaudited)

	Six Months Ended June 30,	
	2004	**2003**
Income before income taxes, cumulative effect of changes in accounting principles, net losses in equity investments and minority interests	$ 564	$ 460
Fixed charges deducted from income:		
Interest expense	232	219
Implicit interest in rents	25	34
	257	253
Earnings available for fixed charges	$ 821	$ 713
Interest expense	$ 232	$ 219
Capitalized interest	10	10
Implicit interest in rents	25	34
Total fixed charges	$ 267	$ 263
Ratio of earnings to fixed charges	3.1x	2.7x

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, David P. Steiner, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. 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 — (15e) and 15d — (15e)) 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 quarterly report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly 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

    c. 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

5. 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.

Date: July 29, 2004

By: /s/ David P. Steiner
David P. Steiner
Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Robert G. Simpson, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. 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 — (15e) and 15d — (15e)) 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 quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly 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

   c. 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

5. 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.

Date: July 29, 2004

By: /s/ Robert G. Simpson
Robert G. Simpson
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

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 June 30, 2004 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
Chief Executive Officer

July 29, 2004

EXHIBIT 32.2

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 June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert G. Simpson, 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/ Robert G. Simpson
Robert G. Simpson
Senior Vice President and Chief Financial Officer

July 29, 2004