

## Recertification Notice of Intent (NOI)

### NPDES General Permit for Construction and Discharge of Uncontaminated Stormwater from a Sanitary Landfill Sediment Pond ARG160000

You must **complete, certify, and sign this Recertification Notice of Intent (NOI) form** and return it to the Department in order to continue permit coverage under the General Permit ARG160000. You must submit this form **no later than February 28, 2015**. Please keep a copy of this form for your records once completed and signed.

Permit Tracking Number: ARG160011

AFIN: 60-00438

Permittee Name: Waste Management of Arkansas, Inc. – Two Pine Landfill

If any changes need to be made to the information shown below, please update the new information in the corrections section below and/or attach documentation.

|                             | Current Information in ADEQ's Database               | Corrections, If Needed |
|-----------------------------|------------------------------------------------------|------------------------|
| Facility Physical Address:  | Waste Management of Arkansas, Inc. Two Pine Landfill |                        |
|                             | 100 Two Pine Drive                                   |                        |
|                             | North Little Rock, AR 72117                          |                        |
| Facility Mailing Address:   | 100 Two Pine Drive                                   |                        |
|                             | North Little Rock, AR 72117                          |                        |
| Responsible Official:       | Charles Gillian                                      |                        |
| Responsible Official Email: | cgillian@wm.com                                      |                        |
| Cognizant Official:         | Jodi A Taylor                                        |                        |
| Cognizant Official Email:   | jtaylo28@wm.com                                      |                        |
| Contact Person:             | Jodi Taylor                                          |                        |
| Phone Number:               | 501-982-7336                                         |                        |

1. Have you attached an updated disclosure statement?

Yes or No

2. Is the invoice address the same as the mailing address above?

Yes or No

If "No" please  
provide invoice  
address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### Outfall Currently Listed in ADEQ's Database\*

| Outfall Number | Latitude |     |     | Longitude |    |     |
|----------------|----------|-----|-----|-----------|----|-----|
| 001            | 34°      | 50' | 8"  | 92°       | 9' | 36" |
| 002            | 34°      | 50' | 50" | 92°       | 8' | 5"  |
| 003            | 34°      | 50' | 22" | 92°       | 9' | 18" |

\* If a change to the above outfall is needed, please be sure to provide the outfall number, coordinates, and an explanation of the required changes.

Additional Comments: \_\_\_\_\_

"I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations."

I certify that I have read and will comply with all the requirements of the NPDES General Permit ARG160000 for Construction and Discharge of Uncontaminated Stormwater from a Sanitary Landfill Sediment Pond.

Responsible Official Name: Charles Gillian  
Responsible Official Title: Director of Disposal Operations  
Responsible Official Signature:   
Date: 9/25/2014

Return the NOI form to the address below or send it electronically to: [water.permit.application@adeq.state.ar.us](mailto:water.permit.application@adeq.state.ar.us)

Water Division, General Permits Section  
Arkansas Department of Environmental Quality  
5301 Northshore Drive  
North Little Rock, AR 72118-5317

# Delaware

PAGE 1

*The First State*

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "WASTE MANAGEMENT OF ARKANSAS, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF OCTOBER, A.D. 2014.

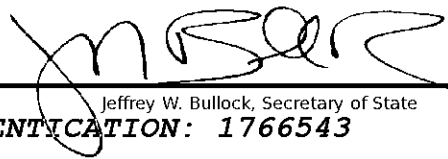
AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

2023039 8300

141274609



  
Jeffrey W. Bullock, Secretary of State  
AUTHENTICATION: 1766543

DATE: 10-09-14

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)



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

For the Quarterly Period Ended June 30, 2014

or



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

For the transition period from to

Commission file number 1-12154

**Waste Management, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**73-1309529**

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

**1001 Fannin**

**Suite 4000**

**Houston, Texas 77002**

*(Address of principal executive offices)*

**(713) 512-6200**

*(Registrant's telephone number, including area code)*

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

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

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

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

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

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at July 22, 2014 was 466,401,578 (excluding treasury shares of 163,880,883).

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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)**

|                                                                                                                 | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|-----------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------|
|                                                                                                                 | <b>(Unaudited)</b>       |                              |
| <b>ASSETS</b>                                                                                                   |                          |                              |
| Current assets:                                                                                                 |                          |                              |
| Cash and cash equivalents                                                                                       | \$ 137                   | \$ 58                        |
| Accounts receivable, net of allowance for doubtful accounts of \$32 and \$33, respectively                      | 1,710                    | 1,699                        |
| Other receivables                                                                                               | 87                       | 111                          |
| Investment in unconsolidated entity                                                                             | —                        | 177                          |
| Parts and supplies                                                                                              | 166                      | 178                          |
| Deferred income taxes                                                                                           | 106                      | 113                          |
| Other assets                                                                                                    | 149                      | 163                          |
| Total current assets                                                                                            | 2,355                    | 2,499                        |
| Property and equipment, net of accumulated depreciation and amortization of \$16,998 and \$16,723, respectively | 12,031                   | 12,344                       |
| Goodwill                                                                                                        | 6,094                    | 6,070                        |
| Other intangible assets, net                                                                                    | 493                      | 529                          |
| Investments in unconsolidated entities                                                                          | 419                      | 414                          |
| Other assets                                                                                                    | 787                      | 747                          |
| Total assets                                                                                                    | <u>\$ 22,179</u>         | <u>\$ 22,603</u>             |
| <b>LIABILITIES AND EQUITY</b>                                                                                   |                          |                              |
| Current liabilities:                                                                                            |                          |                              |
| Accounts payable                                                                                                | \$ 692                   | \$ 744                       |
| Accrued liabilities                                                                                             | 1,031                    | 1,069                        |
| Deferred revenues                                                                                               | 471                      | 475                          |
| Current portion of long-term debt                                                                               | 786                      | 726                          |
| Total current liabilities                                                                                       | 2,980                    | 3,014                        |
| Long-term debt, less current portion                                                                            | 9,011                    | 9,500                        |
| Deferred income taxes                                                                                           | 1,796                    | 1,842                        |
| Landfill and environmental remediation liabilities                                                              | 1,540                    | 1,518                        |
| Other liabilities                                                                                               | 705                      | 727                          |
| Total liabilities                                                                                               | 16,032                   | 16,601                       |
| Commitments and contingencies                                                                                   |                          |                              |
| Equity:                                                                                                         |                          |                              |
| Waste Management, Inc. stockholders' equity:                                                                    |                          |                              |
| Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued                      | 6                        | 6                            |
| Additional paid-in capital                                                                                      | 4,624                    | 4,596                        |
| Retained earnings                                                                                               | 6,376                    | 6,289                        |
| Accumulated other comprehensive income                                                                          | 135                      | 154                          |
| Treasury stock at cost, 164,396,943 and 165,961,646 shares, respectively                                        | (5,288)                  | (5,338)                      |
| Total Waste Management, Inc. stockholders' equity                                                               | 5,853                    | 5,707                        |
| Noncontrolling interests                                                                                        | 294                      | 295                          |
| Total equity                                                                                                    | 6,147                    | 6,002                        |
| Total liabilities and equity                                                                                    | <u>\$ 22,179</u>         | <u>\$ 22,603</u>             |

See notes to Condensed Consolidated Financial Statements.

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

|                                                                         | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                |
|-------------------------------------------------------------------------|--------------------------------|-----------------|------------------------------|----------------|
|                                                                         | 2014                           | 2013            | 2014                         | 2013           |
| Operating revenues                                                      | \$ 3,561                       | \$ 3,526        | \$ 6,957                     | \$ 6,862       |
| Costs and expenses:                                                     |                                |                 |                              |                |
| Operating                                                               | 2,301                          | 2,311           | 4,533                        | 4,520          |
| Selling, general and administrative                                     | 353                            | 353             | 728                          | 743            |
| Depreciation and amortization                                           | 339                            | 339             | 656                          | 662            |
| Restructuring                                                           | 1                              | 2               | 2                            | 10             |
| (Income) expense from divestitures, asset impairments and unusual items | 35                             | 11              | 37                           | 15             |
|                                                                         | <u>3,029</u>                   | <u>3,016</u>    | <u>5,956</u>                 | <u>5,950</u>   |
| Income from operations                                                  | <u>532</u>                     | <u>510</u>      | <u>1,001</u>                 | <u>912</u>     |
| Other income (expense):                                                 |                                |                 |                              |                |
| Interest expense, net                                                   | (115)                          | (121)           | (236)                        | (242)          |
| Equity in net losses of unconsolidated entities                         | (13)                           | (8)             | (22)                         | (16)           |
| Other, net                                                              | (2)                            | 2               | (5)                          | (9)            |
|                                                                         | <u>(130)</u>                   | <u>(127)</u>    | <u>(263)</u>                 | <u>(267)</u>   |
| Income before income taxes                                              | 402                            | 383             | 738                          | 645            |
| Provision for income taxes                                              | 180                            | 127             | 279                          | 213            |
| Consolidated net income                                                 | 222                            | 256             | 459                          | 432            |
| Less: Net income attributable to noncontrolling interests               | 12                             | 12              | 21                           | 20             |
| Net income attributable to Waste Management, Inc.                       | <u>\$ 210</u>                  | <u>\$ 244</u>   | <u>\$ 438</u>                | <u>\$ 412</u>  |
| Basic earnings per common share                                         | <u>\$ 0.45</u>                 | <u>\$ 0.52</u>  | <u>\$ 0.94</u>               | <u>\$ 0.88</u> |
| Diluted earnings per common share                                       | <u>\$ 0.45</u>                 | <u>\$ 0.52</u>  | <u>\$ 0.94</u>               | <u>\$ 0.88</u> |
| Cash dividends declared per common share                                | <u>\$ 0.375</u>                | <u>\$ 0.365</u> | <u>\$ 0.75</u>               | <u>\$ 0.73</u> |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Millions)  
(Unaudited)

|                                                                     | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---------------------------------------------------------------------|--------------------------------|---------------|------------------------------|---------------|
|                                                                     | 2014                           | 2013          | 2014                         | 2013          |
| Consolidated net income                                             | \$ 222                         | \$ 256        | \$ 459                       | \$ 432        |
| Other comprehensive income (loss), net of taxes:                    |                                |               |                              |               |
| Derivative instruments, net                                         | 4                              | 12            | (2)                          | 10            |
| Available-for-sale securities, net                                  | 2                              | (1)           | 2                            | —             |
| Foreign currency translation adjustments                            | 40                             | (37)          | (19)                         | (69)          |
| Post-retirement benefit obligation, net                             | —                              | —             | —                            | —             |
| Other comprehensive income (loss), net of taxes                     | <u>46</u>                      | <u>(26)</u>   | <u>(19)</u>                  | <u>(59)</u>   |
| Comprehensive income                                                | 268                            | 230           | 440                          | 373           |
| Less: Comprehensive income attributable to noncontrolling interests | 12                             | 12            | 21                           | 20            |
| Comprehensive income attributable to Waste Management, Inc.         | <u>\$ 256</u>                  | <u>\$ 218</u> | <u>\$ 419</u>                | <u>\$ 353</u> |

See notes to Condensed Consolidated Financial Statements.

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

|                                                                                                                  | Six Months Ended June 30, |        |
|------------------------------------------------------------------------------------------------------------------|---------------------------|--------|
|                                                                                                                  | 2014                      | 2013   |
| Cash flows from operating activities:                                                                            |                           |        |
| Consolidated net income                                                                                          | \$ 459                    | \$ 432 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities:                   |                           |        |
| Depreciation and amortization                                                                                    | 656                       | 662    |
| Deferred income tax benefit                                                                                      | (48)                      | (29)   |
| Interest accretion on landfill liabilities                                                                       | 43                        | 43     |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | 2                         | (7)    |
| Provision for bad debts                                                                                          | 19                        | 25     |
| Equity-based compensation expense                                                                                | 29                        | 34     |
| Excess tax benefits associated with equity-based transactions                                                    | (1)                       | (7)    |
| Net gain from disposal of assets                                                                                 | (25)                      | (10)   |
| Effect of (income) expense from divestitures, asset impairments and unusual items and other                      | 37                        | 26     |
| Equity in net losses of unconsolidated entities, net of dividends                                                | 22                        | 16     |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures:                     |                           |        |
| Receivables                                                                                                      | (8)                       | (4)    |
| Other current assets                                                                                             | 11                        | 3      |
| Other assets                                                                                                     | 13                        | (5)    |
| Accounts payable and accrued liabilities                                                                         | (16)                      | (32)   |
| Deferred revenues and other liabilities                                                                          | (54)                      | (25)   |
| Net cash provided by operating activities                                                                        | 1,139                     | 1,122  |
| Cash flows from investing activities:                                                                            |                           |        |
| Acquisitions of businesses, net of cash acquired                                                                 | (26)                      | (210)  |
| Capital expenditures                                                                                             | (474)                     | (501)  |
| Proceeds from divestitures of businesses and other assets (net of cash divested)                                 | 266                       | 74     |
| Net receipts from (deposits to) restricted trust and escrow accounts                                             | 11                        | (2)    |
| Investments in unconsolidated entities                                                                           | (11)                      | (24)   |
| Other                                                                                                            | (60)                      | (30)   |
| Net cash used in investing activities                                                                            | (294)                     | (693)  |
| Cash flows from financing activities:                                                                            |                           |        |
| New borrowings                                                                                                   | 1,500                     | 461    |
| Debt repayments                                                                                                  | (1,925)                   | (658)  |
| Cash dividends                                                                                                   | (349)                     | (341)  |
| Exercise of common stock options                                                                                 | 31                        | 98     |
| Excess tax benefits associated with equity-based transactions                                                    | 1                         | 7      |
| Distributions paid to noncontrolling interests                                                                   | (22)                      | (32)   |
| Other                                                                                                            | (2)                       | —      |
| Net cash used in financing activities                                                                            | (766)                     | (465)  |
| Effect of exchange rate changes on cash and cash equivalents                                                     | —                         | (4)    |
| Increase (decrease) in cash and cash equivalents                                                                 | 79                        | (40)   |
| Cash and cash equivalents at beginning of period                                                                 | 58                        | 194    |
| Cash and cash equivalents at end of period                                                                       | \$ 137                    | \$ 154 |

See notes to Condensed Consolidated Financial Statements.

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

|                                                                                         | Waste Management, Inc. Stockholders' Equity |         |         |                                  |                      |                                                        |                |            | Noncontrolling<br>Interests |
|-----------------------------------------------------------------------------------------|---------------------------------------------|---------|---------|----------------------------------|----------------------|--------------------------------------------------------|----------------|------------|-----------------------------|
|                                                                                         | Common Stock                                |         |         | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury Stock |            |                             |
|                                                                                         | Total                                       | Shares  | Amounts |                                  |                      |                                                        | Shares         | Amounts    |                             |
| Balance, December 31, 2013                                                              | \$6,002                                     | 630,282 | \$ 6    | \$ 4,596                         | \$ 6,289             | \$ 154                                                 | (165,962)      | \$ (5,338) | \$ 295                      |
| Consolidated net income                                                                 | 459                                         | —       | —       | —                                | 438                  | —                                                      | —              | —          | 21                          |
| Other comprehensive income (loss), net of taxes                                         | (19)                                        | —       | —       | —                                | —                    | (19)                                                   | —              | —          | —                           |
| Cash dividends                                                                          | (349)                                       | —       | —       | —                                | (349)                | —                                                      | —              | —          | —                           |
| Equity-based compensation transactions, including dividend<br>equivalents, net of taxes | 76                                          | —       | —       | 28                               | (2)                  | —                                                      | 1,562          | 50         | —                           |
| Distributions paid to noncontrolling interests                                          | (22)                                        | —       | —       | —                                | —                    | —                                                      | —              | —          | (22)                        |
| Other                                                                                   | —                                           | —       | —       | —                                | —                    | —                                                      | 3              | —          | —                           |
| Balance, June 30, 2014                                                                  | \$6,147                                     | 630,282 | \$ 6    | \$ 4,624                         | \$ 6,376             | \$ 135                                                 | (164,397)      | \$ (5,288) | \$ 294                      |

See notes to Condensed Consolidated Financial Statements.

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

**1. Basis of Presentation**

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; Waste Management's wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management or its subsidiaries are the primary beneficiaries as described in Note 13. Waste Management is a holding company and all operations are conducted by its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term "WM," we are referring only to Waste Management, Inc., the parent holding company.

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

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, which are presented in this report as "Other." Additional information related to our segments can be found in Note 8.

The Condensed Consolidated Financial Statements as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 are unaudited. In the opinion of management, these financial statements include all adjustments, which, unless otherwise disclosed, are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows, and changes in equity for the periods presented. The results for interim periods are not necessarily indicative of results for the entire year. The financial statements presented herein should be read in connection with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

***Reclassifications***

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



**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**2. Landfill and Environmental Remediation Liabilities**

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

|                                  | June 30, 2014  |                           |                | December 31, 2013 |                           |                |
|----------------------------------|----------------|---------------------------|----------------|-------------------|---------------------------|----------------|
|                                  | Landfill       | Environmental Remediation | Total          | Landfill          | Environmental Remediation | Total          |
| Current (in accrued liabilities) | \$ 92          | \$ 35                     | \$ 127         | \$ 95             | \$ 35                     | \$ 130         |
| Long-term                        | 1,352          | 188                       | 1,540          | 1,326             | 192                       | 1,518          |
|                                  | <u>\$1,444</u> | <u>\$ 223</u>             | <u>\$1,667</u> | <u>\$1,421</u>    | <u>\$ 227</u>             | <u>\$1,648</u> |

The changes to landfill and environmental remediation liabilities are reflected in the table below (in millions):

|                                                      | Landfill       | Environmental Remediation |
|------------------------------------------------------|----------------|---------------------------|
| December 31, 2012                                    | \$1,338        | \$ 253                    |
| Obligations incurred and capitalized                 | 59             | —                         |
| Obligations settled                                  | (71)           | (20)                      |
| Interest accretion                                   | 87             | 4                         |
| Revisions in estimates and interest rate assumptions | 6              | (6)                       |
| Acquisitions, divestitures and other adjustments     | 2              | (4)                       |
| December 31, 2013                                    | 1,421          | 227                       |
| Obligations incurred and capitalized                 | 26             | —                         |
| Obligations settled                                  | (23)           | (9)                       |
| Interest accretion                                   | 43             | 3                         |
| Revisions in estimates and interest rate assumptions | (6)            | 2                         |
| Acquisitions, divestitures and other adjustments     | (17)           | —                         |
| June 30, 2014                                        | <u>\$1,444</u> | <u>\$ 223</u>             |

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 13 for additional information related to these trusts.

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**3. Debt**

The following table summarizes the major components of debt at each balance sheet date (in millions) and provides the maturities and interest rate ranges of each major category as of June 30, 2014:

|                                                                                                                                                                                               | June 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| U.S. revolving credit facility, maturing July 2018 (weighted average interest rate of 1.2% at June 30, 2014 and December 31, 2013)                                                            | \$ 105           | \$ 420               |
| Letter of credit facilities, maturing through December 2016                                                                                                                                   | —                | —                    |
| Canadian credit facility and term loan, maturing November 2017 (weighted average effective interest rate of 2.6% at June 30, 2014 and 2.7% at December 31, 2013)                              | 351              | 414                  |
| Senior notes maturing through 2039, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 5.7% at June 30, 2014 and December 31, 2013)                                | 6,279            | 6,287                |
| Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 0.04% to 5.7% (weighted average interest rate of 2.2% at June 30, 2014 and 2.3% at December 31, 2013) | 2,649            | 2,664                |
| Capital leases and other, maturing through 2055, interest rates up to 12%                                                                                                                     | 413              | 441                  |
|                                                                                                                                                                                               | 9,797            | 10,226               |
| Current portion of long-term debt                                                                                                                                                             | 786              | 726                  |
|                                                                                                                                                                                               | <u>\$9,011</u>   | <u>\$ 9,500</u>      |

***Debt Classification***

As of June 30, 2014, we had (i) \$517 million of debt maturing within the next 12 months, including \$350 million of 6.375% senior notes that mature in March 2015 and \$102 million of tax-exempt bonds; (ii) \$105 million of short-term borrowings outstanding under the U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and (iii) \$905 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance portions of our current obligations on a long-term basis as of June 30, 2014, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$741 million of this debt as long-term and the remaining \$786 million as current obligations. The \$741 million classified as long-term is less than our unused and available capacity under our \$2.25 billion revolving credit facility of \$1.3 billion discussed below due to expected decreases in such available capacity within the next 12 months.

***Revolving Credit and Letter of Credit Facilities***

As of June 30, 2014, we had an aggregate committed capacity of \$2.65 billion for letters of credit under various U.S. credit facilities. Our \$2.25 billion revolving credit facility expires in July 2018 and is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms ending through December 2016. As of June 30, 2014, we had an aggregate of \$1.3 billion of letters of credit outstanding under various credit facilities. Approximately \$874 million of these letters of credit have been issued under our \$2.25 billion revolving credit facility. As of June 30, 2014, we had outstanding borrowings under our \$2.25 billion revolving credit facility of \$105 million, leaving \$1.3 billion of unused and available capacity.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We also have a Canadian credit agreement that matures in November 2017 and provides for C\$150 million of revolving credit capacity. We have the ability to issue up to C\$50 million of letters of credit under the Canadian revolving credit facility, which if utilized, reduces the amount of credit capacity available for borrowings. As of June 30, 2014, we had no letters of credit or borrowings outstanding under the credit facility.

**Debt Borrowings and Repayments**

*\$2.25 Billion Revolving Credit Facility* — During the first half of 2014, we made net repayments of \$315 million under our \$2.25 billion revolving credit facility with available cash.

*Canadian Credit Facility and Term Loan* — We repaid C\$65 million, or \$60 million, of net advances under our Canadian credit facility and term loan during the six months ended June 30, 2014 with available cash.

*Senior Notes* — In March 2014, we repaid \$350 million of 5.0% senior notes that matured in March 2014 with borrowings under our \$2.25 billion revolving credit facility. In May 2014, we issued \$350 million of 3.5% senior notes due May 15, 2024. The net proceeds from the debt issuance were \$347 million, all of which were used to repay borrowings under our \$2.25 billion revolving credit facility.

*Tax-Exempt Bonds* — During the six months ended June 30, 2014, we repaid \$15 million of tax-exempt bonds with available cash.

**4. Derivative Instruments and Hedging Activities**

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

| Derivatives Designated as Hedging Instruments | Balance Sheet Location      | June 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------------------|-----------------------------|------------------|----------------------|
| Foreign currency derivatives                  | Long-term other assets      | \$ 1             | \$ 2                 |
| Total derivative assets                       |                             | \$ 1             | \$ 2                 |
| Electricity commodity derivatives             | Current accrued liabilities | \$ 1             | \$ 3                 |
| Foreign currency derivatives                  | Current accrued liabilities | 2                | —                    |
| Interest rate derivatives                     | Current accrued liabilities | —                | 28                   |
| Total derivative liabilities                  |                             | \$ 3             | \$ 31                |

We have not offset fair value amounts recognized for our derivative instruments. For information related to the inputs used to measure our derivative assets and liabilities at fair value, refer to Note 12.

**Fair Value Hedges**

*Interest Rate Swaps*

In prior years, we entered into interest rate swaps to maintain a portion of our debt obligations at variable market interest rates. We designated these interest rate swaps as fair value hedges of our fixed-rate senior notes. Fair value hedge accounting for interest rate swap contracts increased the carrying value of our debt instruments by \$51 million as of June 30, 2014 and \$59 million as of December 31, 2013. These fair value adjustments to long-term debt are being amortized as a reduction to interest expense using the effective interest method over the remaining term of the related senior notes, which extend through 2028. We recognized benefits to interest expense associated with the amortization of our terminated interest rate swaps of \$3 million and \$5 million for the three-month periods ended June 30, 2014 and 2013, respectively, and \$8 million and \$10 million for the six-month periods ended June 30, 2014 and 2013, respectively.

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**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Cash Flow Hedges***

***Forward-Starting Interest Rate Swaps***

During the first quarter of 2014, forward-starting interest rate swaps with a notional value of \$175 million matured and we paid cash of \$36 million to settle the associated liabilities. These swaps were designated as cash flow hedges and had been executed in prior years to hedge the risk of changes in semi-annual interest payments due to fluctuations in the forward ten-year LIBOR swap rate for an anticipated fixed-rate debt issuance that occurred in May 2014. Accordingly, the effective portion of the loss associated with the matured forward-starting swaps has been deferred as a component of “Accumulated other comprehensive income” and is being amortized to interest expense over the ten-year term of the related senior notes. The ineffectiveness realized during the second quarter of 2014 was not material.

At June 30, 2014 and December 31, 2013, our “Accumulated other comprehensive income” included \$53 million and \$34 million, respectively, of after-tax deferred losses related to all terminated swaps. These losses are being amortized as an increase to interest expense using the effective interest method over the ten-year term of the related senior notes, which extend through 2024. As of June 30, 2014, \$11 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months for these previously terminated swaps.

***Foreign Currency Derivatives***

We use foreign currency exchange rate derivatives to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between WM Holdings and its Canadian subsidiaries. As of June 30, 2014, we had foreign exchange cross currency swaps outstanding for all of the anticipated cash flows associated with intercompany loans from WM Holdings to the wholly-owned Canadian subsidiaries. The hedged cash flows as of June 30, 2014 include C\$370 million of total notional value. The scheduled principal payments of the loan and the related swaps are as follows: C\$70 million due on October 31, 2016, C\$150 million due on October 31, 2017 and C\$150 million due on October 31, 2018. We designated these cross currency swaps as cash flow hedges. Gains or losses resulting from the remeasurement of the underlying non-functional currency intercompany loan are recognized in current earnings in the same financial statement line item as offsetting gains or losses on the related cross currency swaps.

***Electricity Commodity Derivatives***

We use short-term “receive fixed, pay variable” electricity commodity swaps to reduce the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. We hedged 1.73 million megawatt hours, or approximately 56%, of Wheelabrator’s full year 2013 merchant electricity sales and the swaps executed through June 30, 2014 are expected to hedge approximately 482,000 megawatt hours, or approximately 16%, of Wheelabrator’s full year 2014 merchant electricity sales. For each of the three- and six-month periods ended June 30, 2014, we hedged 17% of Wheelabrator’s merchant electricity sales. For the three- and six-month periods ended June 30, 2013, we hedged 56% and 54%, respectively, of Wheelabrator’s merchant electricity sales.

There was no significant ineffectiveness associated with our cash flow hedges during the three and six months ended June 30, 2014 or 2013. Refer to Note 11 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

***Credit-Risk-Related Contingent Features***

Our interest rate derivative instruments have in the past, and may in the future, contain provisions related to the Company’s credit rating. These provisions generally provide that if the Company’s credit rating were to fall to specified levels below investment grade, the counterparties have the ability to terminate the derivative agreements, resulting in settlement of all affected transactions. As of June 30, 2014 and December 31, 2013, we did not have any interest rate derivatives outstanding that contained these credit-risk-related features.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**5. Income Taxes**

Our effective income tax rate for the three and six months ended June 30, 2014 was 44.7% and 37.8%, respectively, compared with 33.2% and 33.0%, for the comparable prior year periods. We evaluate our effective income tax rate at each interim period and adjust it as facts and circumstances warrant. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2014 was primarily due to the divestiture of our Puerto Rico operations and certain other collection and landfill assets. We recognized a \$25 million loss on the divestment as discussed in Notes 9 and 10. No tax benefit was recorded in connection with the loss. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment. Also contributing to the difference for the three and six months ended June 30, 2014 was the unfavorable impact of state and local income taxes offset, in part, by the favorable impact of federal tax credits and the utilization of capital loss carryovers. The six month period also benefited from the revaluation of our deferred taxes and utilization of state net operating losses resulting from a change in state law. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three and six months ended June 30, 2013 was primarily due to the favorable impact of federal tax credits and tax audit settlements offset, in part, by the unfavorable impact of state and local income taxes and tax implications related to impairments.

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

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results of operations and other reductions in the value of our investment in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. We recognized \$2 million of net losses resulting from our share of the entity's operating losses during both the three and six months ended June 30, 2014, and \$2 million and \$3 million during the three and six months ended June 30, 2013, respectively. Our tax provision was reduced by \$5 million and \$8 million for the three and six months ended June 30, 2014, respectively, and by \$6 million and \$9 million for the three and six months ended June 30, 2013, respectively, primarily as a result of tax credits realized from this investment. See Note 13 for additional information related to this investment.

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

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results of operations and other reductions in the value of our investment in "Equity in net losses of unconsolidated entities," within our Condensed Consolidated Statement of Operations. The value of our investment decreases as the tax credits are generated and utilized. During the three and six months ended June 30, 2014, we recognized \$6 million and \$12 million of losses relating to our equity investment in this entity, \$2 million and \$3 million of interest expense, and a reduction in our tax provision of \$9 million (including \$6 million of tax credits) and \$17 million (including \$11 million of tax credits), respectively. During the three and six months ended June 30, 2013, we recognized \$6 million and \$12 million of losses relating to our equity investment in this entity, \$2 million and \$3 million of interest expense, and a reduction in our tax provision of \$10 million (including \$7 million of tax credits) and \$17 million (including \$11 million of tax credits), respectively. See Note 13 for additional information related to this investment.

*Bonus Depreciation* — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying

**WASTE MANAGEMENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

**6. Earnings Per Share**

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

|                                                                                                     | Three Months Ended |       | Six Months Ended |       |
|-----------------------------------------------------------------------------------------------------|--------------------|-------|------------------|-------|
|                                                                                                     | June 30,           | 2013  | June 30,         | 2013  |
|                                                                                                     | 2014               |       | 2014             | 2013  |
| Number of common shares outstanding at end of period                                                | 465.9              | 468.1 | 465.9            | 468.1 |
| Effect of using weighted average common shares outstanding                                          | —                  | (0.2) | (0.3)            | (1.3) |
| Weighted average basic common shares outstanding                                                    | 465.9              | 467.9 | 465.6            | 466.8 |
| Dilutive effect of equity-based compensation awards and other contingently issuable shares          | 2.1                | 1.5   | 1.9              | 1.3   |
| Weighted average diluted common shares outstanding                                                  | 468.0              | 469.4 | 467.5            | 468.1 |
| Potentially issuable shares                                                                         | 13.8               | 13.6  | 13.8             | 13.6  |
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 0.8                | 1.2   | 2.8              | 3.2   |

**7. Commitments and Contingencies**

*Financial Instruments* — We have obtained letters of credit, surety bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation, and other obligations. Letters of credit generally are supported by our \$2.25 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 3. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) wholly-owned insurance companies, the sole business of which is to issue surety bonds and/or insurance policies on our behalf.

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

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

We have retained a significant portion of the risks related to our automobile, general liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

self-insured retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions. We do not expect the impact of any known casualty, property, environmental or other contingency to have a material impact on our financial condition, results of operations or cash flows.

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

We also have guaranteed the obligations and certain performance requirements of, and provided indemnification to, third parties in connection with both consolidated and unconsolidated entities. Guarantee agreements outstanding as of June 30, 2014 include (i) guarantees of unconsolidated entities' financial obligations maturing through 2020 for maximum future payments of \$9 million and (ii) agreements guaranteeing certain market value losses for approximately 825 homeowners' properties adjacent to or near 20 of our landfills. Our indemnification obligations generally arise from divestitures and provide that we will be responsible for liabilities associated with our operations for events that occurred prior to the sale of the operations. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets or other market conditions are achieved post-closing and we have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. We do not currently believe that contingent obligations to provide indemnification or pay additional post-closing consideration in connection with our divestitures or acquisitions will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the investigation of the extent of environmental impact. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$190 million higher than the \$223 million recorded in the Condensed Consolidated Financial Statements as of June 30, 2014. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of June 30, 2014, we had been notified by the government that we are a PRP in connection with 75 locations listed on the EPA's Superfund National Priorities List, or NPL. Of the 75 sites at which claims have been made against us, 14 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to evaluate or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 61 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

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

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

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

Additionally, on April 30, 2014, the United States District Court for the District of Hawaii issued an indictment against Waste Management of Hawaii, Inc. ("WMHI") and two employees of WMHI. The United States Attorney's Office for the District of Hawaii had been investigating water discharges at the Waimanalo Gulch Sanitary Landfill, which WMHI operates for the city and county of Honolulu, in connection with three major rainstorms in December 2010 and January 2011. The indictment alleges violations of the federal Clean Water Act, conspiracy and making false statements to the Hawaii Department of Health and the EPA. We are vigorously defending against this action. Given the early stage of this case and significant issues in dispute, we cannot currently predict an outcome or estimate a range of loss, but we could potentially be subject to sanctions, including requirements to pay monetary penalties.

*Litigation* — In October 2011 and January 2012, we were named as a defendant in a purported class action in the Circuit Court of Sarasota County, Florida and the Circuit Court of Lawrence County, Alabama, respectively. These cases primarily pertain to our fuel and environmental charges included on our invoices, generally alleging that such charges were not properly disclosed, were unfair and were contrary to the customer service contracts. The law firm that filed these lawsuits had filed a purported class action in 2008 against subsidiaries of WM in Bullock County, Alabama, making similar allegations. The prior Alabama suit was removed to federal court, where the federal court ultimately dismissed the plaintiffs' national class action claims.



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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The plaintiffs then elected to dismiss the case without prejudice. We will vigorously defend against these pending lawsuits. Given the inherent uncertainties of litigation, including the early stage of these cases, the unknown size of any potential class, and legal and factual issues in dispute, the outcome of these cases cannot be predicted and a range of loss cannot currently be estimated.

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Additionally, we often enter into agreements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation.

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

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

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

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WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

contributions to a multiemployer defined benefit pension plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

One of the most significant multiemployer pension plans in which we have participated is the Central States, Southeast and Southwest Areas Pension Plan (“Central States Pension Plan”). The Central States Pension Plan is in “critical status,” as defined by the Pension Protection Act of 2006. Since 2008, certain of our affiliates have bargained to remove covered employees from the Central States Pension Plan, resulting in a series of withdrawals, and we have recognized charges to “Operating” expense associated with the withdrawal of certain bargaining units from the Central States Pension Plan and other underfunded multiemployer pension plans. In October 2011, employees at the last of our affiliates with active participants in the Central States Pension Plan voted to decertify the union that represented them, withdrawing themselves from the Central States Pension Plan. The Company believes there are no collective bargaining agreements remaining that require continuing contributions to this plan; however, this point is the subject of pending litigation with the trustees for the Central States Pension Plan.

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

*Tax Matters* — We are currently in the examination phase of IRS audits for the tax years 2013 and 2014 and expect these audits to be completed within the next nine and 21 months, respectively. We participate in the IRS’s Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our annual tax return. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2005, with the exception of affirmative claims in one jurisdiction that date back to 2000. We are not currently under audit in Canada and all tax years prior to 2009 are closed. In July 2011, we acquired Oakleaf Global Holdings (“Oakleaf”), which is subject to potential IRS examinations for the years 2010 and 2011. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf’s pre-acquisition period tax liabilities. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse impact on our results of operations or cash flows.

## **8. Segment and Related Information**

Our senior management evaluates, oversees and manages the financial performance of our Solid Waste subsidiaries through our 17 geographic Areas. These 17 Areas constitute our operating segments and none of the Areas individually meet the quantitative criteria to be a separate reportable segment. We have evaluated the aggregation criteria and concluded that, based on the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geography with the same services offered across the Areas,

**WASTE MANAGEMENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas' income from operations margins. The economic variations experienced by our Areas is attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area's current or future economic performance. As a result of our consideration of economic and other similarities, we have established the following three reportable segments for our Solid Waste business: Tier 1, which is comprised almost exclusively of Areas in the Southern United States; Tier 2, which is comprised predominately of Areas located in the Midwest and Northeast United States; and Tier 3, which encompasses all remaining Areas, including the Northwest and Mid-Atlantic regions of the United States and Eastern Canada. Our Wheelabrator business, which manages waste-to-energy facilities and independent power production plants, continues to be a separate reportable segment as it meets one of the quantitative disclosure thresholds. The operating segments not evaluated and overseen through the 17 Areas and Wheelabrator are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

Summarized financial information concerning our reportable segments is shown in the following table (in millions):

|                            | <u>Gross<br/>Operating<br/>Revenues</u> | <u>Intercompany<br/>Operating<br/>Revenues</u> | <u>Net<br/>Operating<br/>Revenues</u> | <u>Income<br/>from<br/>Operations</u> |
|----------------------------|-----------------------------------------|------------------------------------------------|---------------------------------------|---------------------------------------|
| <b>Three Months Ended:</b> |                                         |                                                |                                       |                                       |
| <b>June 30, 2014</b>       |                                         |                                                |                                       |                                       |
| Solid Waste:               |                                         |                                                |                                       |                                       |
| Tier 1                     | \$ 885                                  | \$ (138)                                       | \$ 747                                | \$ 223                                |
| Tier 2                     | 1,650                                   | (310)                                          | 1,340                                 | 335                                   |
| Tier 3                     | 911                                     | (151)                                          | 760                                   | 149                                   |
| Solid Waste                | 3,446                                   | (599)                                          | 2,847                                 | 707                                   |
| Wheelabrator               | 206                                     | (25)                                           | 181                                   | 20                                    |
| Other                      | 551                                     | (18)                                           | 533                                   | (29)                                  |
|                            | 4,203                                   | (642)                                          | 3,561                                 | 698                                   |
| Corporate and Other        | —                                       | —                                              | —                                     | (166)                                 |
| Total                      | <u>\$ 4,203</u>                         | <u>\$ (642)</u>                                | <u>\$ 3,561</u>                       | <u>\$ 532</u>                         |
| <b>June 30, 2013</b>       |                                         |                                                |                                       |                                       |
| Solid Waste:               |                                         |                                                |                                       |                                       |
| Tier 1                     | \$ 891                                  | \$ (144)                                       | \$ 747                                | \$ 221                                |
| Tier 2                     | 1,641                                   | (313)                                          | 1,328                                 | 325                                   |
| Tier 3                     | 871                                     | (139)                                          | 732                                   | 131                                   |
| Solid Waste                | 3,403                                   | (596)                                          | 2,807                                 | 677                                   |
| Wheelabrator               | 215                                     | (27)                                           | 188                                   | 4                                     |
| Other                      | 554                                     | (23)                                           | 531                                   | (27)                                  |
|                            | 4,172                                   | (646)                                          | 3,526                                 | 654                                   |
| Corporate and Other        | —                                       | —                                              | —                                     | (144)                                 |
| Total                      | <u>\$ 4,172</u>                         | <u>\$ (646)</u>                                | <u>\$ 3,526</u>                       | <u>\$ 510</u>                         |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

|                          | Gross<br>Operating<br>Revenues | Intercompany<br>Operating<br>Revenues | Net<br>Operating<br>Revenues | Income<br>from<br>Operations |
|--------------------------|--------------------------------|---------------------------------------|------------------------------|------------------------------|
| <b>Six Months Ended:</b> |                                |                                       |                              |                              |
| <b>June 30, 2014</b>     |                                |                                       |                              |                              |
| Solid Waste:             |                                |                                       |                              |                              |
| Tier 1                   | \$ 1,735                       | \$ (267)                              | \$ 1,468                     | \$ 441                       |
| Tier 2                   | 3,152                          | (578)                                 | 2,574                        | 619                          |
| Tier 3                   | 1,758                          | (286)                                 | 1,472                        | 273                          |
| Solid Waste              | 6,645                          | (1,131)                               | 5,514                        | 1,333                        |
| Wheelabrator             | 436                            | (52)                                  | 384                          | 54                           |
| Other                    | 1,098                          | (39)                                  | 1,059                        | (47)                         |
|                          | 8,179                          | (1,222)                               | 6,957                        | 1,340                        |
| Corporate and Other      | —                              | —                                     | —                            | (339)                        |
| Total                    | <u>\$ 8,179</u>                | <u>\$ (1,222)</u>                     | <u>\$ 6,957</u>              | <u>\$ 1,001</u>              |
| <b>June 30, 2013</b>     |                                |                                       |                              |                              |
| Solid Waste:             |                                |                                       |                              |                              |
| Tier 1                   | \$ 1,734                       | \$ (277)                              | \$ 1,457                     | \$ 428                       |
| Tier 2                   | 3,157                          | (588)                                 | 2,569                        | 623                          |
| Tier 3                   | 1,697                          | (267)                                 | 1,430                        | 240                          |
| Solid Waste              | 6,588                          | (1,132)                               | 5,456                        | 1,291                        |
| Wheelabrator             | 420                            | (54)                                  | 366                          | 13                           |
| Other                    | 1,088                          | (48)                                  | 1,040                        | (68)                         |
|                          | 8,096                          | (1,234)                               | 6,862                        | 1,236                        |
| Corporate and Other      | —                              | —                                     | —                            | (324)                        |
| Total                    | <u>\$ 8,096</u>                | <u>\$ (1,234)</u>                     | <u>\$ 6,862</u>              | <u>\$ 912</u>                |

Fluctuations in our operating results may be caused by many factors, including period-to-period changes in the relative contribution of revenue by each line of business, changes in commodity prices and by general economic conditions. In addition, our revenues and income from operations typically reflect seasonal patterns. Our operating revenues tend to be somewhat higher in the summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**9. Acquisitions and Divestitures**

***Acquisitions***

*Greenstar, LLC* — On January 31, 2013, we paid \$170 million inclusive of certain adjustments to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent, based on changes in certain recyclable commodity indexes, and had an estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers.

Goodwill of \$122 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned predominantly to our Areas and, to a lesser extent, our recycling brokerage services, as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes. There were no material adjustments to the purchase price allocation from the date of acquisition.

*RCI Environnement, Inc.* — On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec.

Goodwill of \$191 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned to our Eastern Canada Area as it is expected to benefit from the synergies of the combination. A portion of goodwill related to this acquisition is deductible for income tax purposes in accordance with Canadian tax law.

The allocation of the purchase price for the RCI acquisition is final. The following table presents the adjustments since the acquisition date to the allocation of the purchase price for RCI (in millions):

|                                                    | <b>RCI</b>              |                    |                          |
|----------------------------------------------------|-------------------------|--------------------|--------------------------|
|                                                    | <b>July 5,<br/>2013</b> | <b>Adjustments</b> | <b>June 30,<br/>2014</b> |
| Accounts and other receivables                     | \$ 32                   | \$ —               | \$ 32                    |
| Property and equipment                             | 118                     | (1)                | 117                      |
| Goodwill                                           | 177                     | 14                 | 191                      |
| Other intangible assets                            | 169                     | —                  | 169                      |
| Deferred revenues                                  | (4)                     | —                  | (4)                      |
| Landfill and environmental remediation liabilities | (1)                     | —                  | (1)                      |
| Deferred income taxes, net                         | —                       | (14)               | (14)                     |
| Long-term debt, less current portion               | (4)                     | 1                  | (3)                      |
| Total purchase price                               | <u>\$ 487</u>           | <u>\$ —</u>        | <u>\$ 487</u>            |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table presents the final allocation of the purchase price for RCI to other intangible assets (amounts in millions, except for amortization periods):

|                                                              | <b>RCI</b>                                                              |
|--------------------------------------------------------------|-------------------------------------------------------------------------|
|                                                              | <b>Weighted<br/>Average<br/>Amortization<br/>Periods<br/>(in Years)</b> |
| <b>Amount</b>                                                |                                                                         |
| Customer relationships                                       | \$ 162 15.0                                                             |
| Trade name                                                   | 7 5.0                                                                   |
| <b>Total other intangible assets subject to amortization</b> | <b>\$ 169 14.6</b>                                                      |

The following pro forma consolidated results of operations have been prepared as if the acquisitions of Greenstar and RCI occurred at January 1, 2013 (in millions, except per share amounts):

|                                                   | <b>Three Months Ended<br/>June 30, 2013</b> | <b>Six Months Ended<br/>June 30, 2013</b> |
|---------------------------------------------------|---------------------------------------------|-------------------------------------------|
| Operating revenues                                | \$ 3,572                                    | \$ 6,963                                  |
| Net income attributable to Waste Management, Inc. | 245                                         | 413                                       |
| Basic earnings per common share                   | 0.52                                        | 0.88                                      |
| Diluted earnings per common share                 | 0.52                                        | 0.88                                      |

**Divestitures**

In the second quarter of 2014, we sold our Puerto Rico operations and certain other collection and landfill assets which were included in Tier 3 and Tier 1, respectively, of our Solid Waste business. We received proceeds from the sale of \$80 million, consisting of \$65 million of cash and \$15 million of preferred stock. The loss recognized related to the sale was \$25 million and is recorded in “(Income) expense from divestitures, asset impairments and unusual items” in our Condensed Consolidated Statement of Operations.

**10. Asset Impairments and Unusual Items**

***(Income) expense from divestitures, asset impairments and unusual items***

During the first half of 2014, we recognized net charges of \$37 million, primarily related to a \$25 million loss on the divestiture of our Puerto Rico operations and certain other collection and landfill assets as discussed further in Note 9 and a \$12 million impairment charge due to the decision to close a waste processing facility.

During the first half of 2013, we recognized net charges of \$15 million, primarily related to a \$14 million impairment charge at a waste-to-energy facility as a result of projected operating losses. We wrote down the carrying value of the facility’s property, plant and equipment to its estimated fair value. Also included are (i) \$6 million of losses on divestitures related to investments in oil and gas producing properties and (ii) \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our “Other” operations in Note 8. These charges were offset, in part, by gains on divestitures of \$9 million, largely attributable to the sale of a transfer station in our Greater Mid-Atlantic Area.

***Other income (expense)***

In the first quarter of 2014, we sold our investment in Shanghai Environment Group, which was part of our Wheelabrator business. We received cash proceeds from the sale of \$155 million, which have been included in “Proceeds from divestitures of businesses and other assets (net of cash divested)” within “Net cash used in investing activities” in the Condensed Consolidated Statement of Cash Flows. The losses recognized related to the sale were not material and are recorded in “Other, net” in our Condensed Consolidated Statement of Operations.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the first quarter of 2013, we recognized impairment charges of \$11 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value based on third-party investors' recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment recognized in the second quarter of 2013. These charges are recorded in "Other, net" in our Condensed Consolidated Statement of Operations.

**11. Accumulated Other Comprehensive Income**

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

|                                                                                                                                      | Derivative<br>Instruments | Available-<br>for-Sale<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Post-<br>Retirement<br>Benefit<br>Plans | Total |
|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------|---------------------------------------------------|-----------------------------------------|-------|
| Balance, December 31, 2013                                                                                                           | \$ (62)                   | \$ 6                                 | \$ 208                                            | \$ 2                                    | \$154 |
| Other comprehensive income (loss) before reclassifications net of tax expense (benefit) of \$(7), \$1, \$0 and \$0, respectively     | (11)                      | 2                                    | (2)                                               | —                                       | (11)  |
| Amounts reclassified from accumulated other comprehensive income net of tax (expense) benefit of \$6, \$0, \$0 and \$0, respectively | 9                         | —                                    | (17)                                              | —                                       | (8)   |
| Net current period other comprehensive income (loss)                                                                                 | (2)                       | 2                                    | (19)                                              | —                                       | (19)  |
| Balance, June 30, 2014                                                                                                               | \$ (64)                   | \$ 8                                 | \$ 189                                            | \$ 2                                    | \$135 |

The amounts of other comprehensive income (loss) before reclassifications associated with our cash flow derivative instruments are as follows (in millions):

| Derivatives Designated as Cash Flow Hedges | Amount of Derivative Gain (Loss)<br>Recognized in OCI (Effective Portion) |       |                              |       |
|--------------------------------------------|---------------------------------------------------------------------------|-------|------------------------------|-------|
|                                            | Three Months Ended<br>June 30,                                            |       | Six Months Ended<br>June 30, |       |
|                                            | 2014                                                                      | 2013  | 2014                         | 2013  |
| Forward-starting interest rate swaps       | \$ —                                                                      | \$ 10 | \$ (8)                       | \$ 12 |
| Foreign currency derivatives               | (12)                                                                      | 12    | (2)                          | 19    |
| Electricity commodity derivatives          | 2                                                                         | 4     | (8)                          | (6)   |
| Total before tax                           | (10)                                                                      | 26    | (18)                         | 25    |
| Tax (expense) benefit                      | 4                                                                         | (10)  | 7                            | (10)  |
| Net of tax                                 | \$ (6)                                                                    | \$ 16 | \$ (11)                      | \$ 15 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The significant amounts reclassified out of each component of accumulated other comprehensive income are as follows (in millions, with amounts in parentheses representing debits to the statement of operations classification):

| Detail About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income |        |                           |        | Statement of Operations Classification |
|----------------------------------------------------------------|-----------------------------------------------------------------|--------|---------------------------|--------|----------------------------------------|
|                                                                | Three Months Ended June 30,                                     |        | Six Months Ended June 30, |        |                                        |
|                                                                | 2014                                                            | 2013   | 2014                      | 2013   |                                        |
| Gains and losses on cash flow hedges:                          |                                                                 |        |                           |        |                                        |
| Forward-starting interest rate swaps                           | \$ (4)                                                          | \$ (2) | \$ (5)                    | \$ (4) | Interest expense                       |
| Treasury rate locks                                            | —                                                               | (1)    | (1)                       | (1)    | Interest expense                       |
| Foreign currency derivatives                                   | (13)                                                            | 11     | —                         | 19     | Other, net                             |
| Electricity commodity derivatives                              | —                                                               | (1)    | (9)                       | (6)    | Operating revenues                     |
|                                                                | (17)                                                            | 7      | (15)                      | 8      | Total before tax                       |
|                                                                | 7                                                               | (3)    | 6                         | (3)    | Tax (expense) benefit                  |
| Total reclassifications for the period                         | \$ (10)                                                         | \$ 4   | \$ (9)                    | \$ 5   | Net of tax                             |

12. Fair Value Measurements

*Assets and Liabilities Accounted for at Fair Value*

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

|                                   | Total        | Fair Value Measurements at June 30, 2014 Using |                                               |                                              |
|-----------------------------------|--------------|------------------------------------------------|-----------------------------------------------|----------------------------------------------|
|                                   |              | Quoted Prices in Active Markets (Level 1)      | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3)(a) |
| Assets:                           |              |                                                |                                               |                                              |
| Money market funds                | \$ 83        | \$ 83                                          | \$ —                                          | \$ —                                         |
| Fixed-income securities           | 37           | —                                              | 37                                            | —                                            |
| Redeemable preferred stock        | 40           | —                                              | —                                             | 40                                           |
| Foreign currency derivatives      | 1            | —                                              | 1                                             | —                                            |
| Total assets                      | <u>\$161</u> | <u>\$ 83</u>                                   | <u>\$ 38</u>                                  | <u>\$ 40</u>                                 |
| Liabilities:                      |              |                                                |                                               |                                              |
| Electricity commodity derivatives | \$ 1         | \$ —                                           | \$ 1                                          | \$ —                                         |
| Foreign currency derivatives      | 2            | —                                              | 2                                             | —                                            |
| Total liabilities                 | <u>\$ 3</u>  | <u>\$ —</u>                                    | <u>\$ 3</u>                                   | <u>\$ —</u>                                  |



**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

|                                   |              | Fair Value Measurements at<br>December 31, 2013 Using |                                                           |                                                       |
|-----------------------------------|--------------|-------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------|
|                                   |              | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3)(a) |
|                                   | Total        |                                                       |                                                           |                                                       |
| <b>Assets:</b>                    |              |                                                       |                                                           |                                                       |
| Money market funds                | \$ 99        | \$ 99                                                 | \$ —                                                      | \$ —                                                  |
| Fixed-income securities           | 36           | —                                                     | 36                                                        | —                                                     |
| Redeemable preferred stock        | 25           | —                                                     | —                                                         | 25                                                    |
| Foreign currency derivatives      | 2            | —                                                     | 2                                                         | —                                                     |
| Total assets                      | <u>\$162</u> | <u>\$ 99</u>                                          | <u>\$ 38</u>                                              | <u>\$ 25</u>                                          |
| <b>Liabilities:</b>               |              |                                                       |                                                           |                                                       |
| Interest rate derivatives         | \$ 28        | \$ —                                                  | \$ 28                                                     | \$ —                                                  |
| Electricity commodity derivatives | 3            | —                                                     | 3                                                         | —                                                     |
| Total liabilities                 | <u>\$ 31</u> | <u>\$ —</u>                                           | <u>\$ 31</u>                                              | <u>\$ —</u>                                           |

- (a) Level 3 investments have been measured based on third-party investors' recent or pending transactions in these securities, which are considered the best evidence of fair value currently available. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow analysis, third-party appraisals or industry multiples and public comparables. The increase in the fair value of our redeemable preferred stock at June 30, 2014 compared to December 31, 2013 is related to \$15 million of preferred stock acquired in conjunction with the sale of our Puerto Rico operations and certain other collection and landfill assets, which is discussed in Note 9. There has not been any significant change in the fair value of the redeemable preferred stock outstanding at December 31, 2013 since our assessment at that time.

***Fair Value of Debt***

At June 30, 2014, the carrying value of our debt was approximately \$9.8 billion compared with approximately \$10.2 billion at December 31, 2013. The carrying value of our debt includes adjustments associated with fair value hedge accounting related to our interest rate swaps as discussed in Note 4.

The estimated fair value of our debt was approximately \$11.0 billion at both June 30, 2014 and December 31, 2013. The estimated fair value of our senior notes is based on quoted market prices. The carrying value of remarketable debt and borrowings under our revolving credit facilities approximates fair value due to the short-term nature of the interest rates. The fair value of our other debt is estimated using discounted cash flow analysis, based on current market rates for similar types of instruments.

Although we have determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of June 30, 2014 and December 31, 2013. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**13. Variable Interest Entities**

Following is a description of our financial interests in variable interest entities that we consider significant, including (i) those for which we have determined that we are the primary beneficiary of the entity and, therefore, have consolidated the entities into our financial statements; (ii) those that represent a significant interest in an unconsolidated entity and (iii) trusts for final capping, closure, post-closure or environmental remediation obligations for both consolidated and unconsolidated variable interest entities.

***Consolidated Variable Interest Entities***

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

Income, losses and cash flows of the LLCs are allocated to the members based on their initial equity ownership percentages until Hancock and CIT achieve targeted returns on their initial capital investments in each respective LLC. All allocations made through June 30, 2014 have been based on initial equity ownership percentages as the target returns have not yet been achieved for either LLC. We currently expect Hancock and CIT to achieve their targeted return on LLC II in early 2015 and Hancock to achieve its targeted return on LLC I in mid-2015. After the investors have achieved their targeted returns, the LLC agreements provide that we will receive 80% of the earnings of each of the LLCs and Hancock and CIT will be allocated the remaining 20%.

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

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

As of June 30, 2014 and December 31, 2013, our Condensed Consolidated Balance Sheets included \$278 million and \$284 million, respectively, of net property and equipment associated with the LLCs' waste-to-energy facilities and \$243 million and \$239 million, respectively, in noncontrolling interests associated with Hancock's and CIT's interests in the LLCs. We recognized reductions in consolidated earnings of \$10 million and \$21 million for the three and six months ended June 30, 2014, respectively, and \$11 million and \$22 million for the three and six months ended June 30, 2013, respectively, for Hancock's and CIT's noncontrolling interests in the LLCs' earnings, which are included in our consolidated net income. The LLCs' earnings relate to the rental income generated from leasing the facilities to our subsidiaries, reduced by depreciation expense. The LLCs' rental income is eliminated in WM's consolidation.

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**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Significant Unconsolidated Variable Interest Entities***

*Investment in U.K. Waste-to-Energy and Recycling Entity* — In the first quarter of 2012, we formed a U.K. joint venture (the “JV”), together with a commercial waste management company (“Partner”), to develop, construct, operate and maintain a waste-to-energy and recycling facility in England. We own a 50% interest in the JV. We determined that we are not the primary beneficiary of the JV, as all major decisions of the JV require either majority vote or unanimous consent of the directors (who are appointed in equal numbers by us and our Partner) or unanimous consent of the two shareholders of the JV. As such, our Partner shares equally in the power to direct the activities of the JV that most significantly impact its economic performance. Accordingly, we account for this investment under the equity method of accounting and do not consolidate this entity.

Through June 30, 2014, we had funded approximately £18 million, or \$31 million, through loans and less than \$1 million through equity contributions. These amounts are included in our Condensed Consolidated Balance Sheet as long-term “Other assets” and “Investments in unconsolidated entities,” respectively. In addition to the funding commitments described above, the JV has entered into certain foreign currency and interest rate derivatives at the direction of the Norfolk County Council (the “Council”), which awarded the project to the JV. The losses incurred on these derivatives will ultimately be recoverable from the Council under the terms of the project, and accordingly, are not reflected in our “Equity in net losses of unconsolidated entities.”

Following delays in obtaining planning approval, the Council held a special meeting on April 7, 2014 and voted to terminate the project agreement with the JV. The JV then exercised its right to accelerate the effective date of the project agreement’s termination to May 16, 2014. The Council now is obligated to reimburse the JV up to £34 million, or \$58 million, based on the exchange rate as of June 30, 2014, in termination fees and reimbursements required by its agreements with the JV. As a result, any impairment resulting from the termination of the project that we record on account of our interest in the JV will not be material.

*Investment in Refined Coal Facility* — In January 2011, we acquired a noncontrolling interest in a limited liability company established to invest in and manage a refined coal facility. Along with the other equity investor, we support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our initial consideration for this investment consisted of a cash payment of \$48 million. As of June 30, 2014 and December 31, 2013, our investment balance was \$33 million and \$27 million, respectively, representing our current maximum pre-tax exposure to loss. Under the terms and conditions of the transaction, we do not believe that we have any material exposure to loss. Required capital contributions commenced in the first quarter of 2013 and will continue through the expiration of the tax credits under Section 45 of the Internal Revenue Code, which occurs at the end of 2019. We are only obligated to make future contributions to the extent tax credits are generated. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity’s activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

*Investment in Low-Income Housing Properties* — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. We support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our target return on the investment is guaranteed and, therefore, we do not believe that we have any material exposure to loss. Our consideration for this investment totaled \$221 million, which was comprised of a \$215 million note payable and an initial cash payment of \$6 million. At June 30, 2014 and December 31, 2013, our investment balance was \$116 million and \$129 million, respectively, and our debt balance was \$116 million and \$128 million, respectively. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity’s activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 5.

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**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Trusts for Final Capping, Closure, Post-Closure or Environmental Remediation Obligations***

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

We account for the trusts for which we are the sole beneficiary as long-term "Other assets" in our Condensed Consolidated Balance Sheet. We reflect our interests in the unrealized gains and losses on available-for-sale securities held by these trusts as a component of "Accumulated other comprehensive income." These trusts had a fair value of \$128 million at June 30, 2014 and \$125 million at December 31, 2013. Our interests in the trusts that have been established for the benefit of both the Company and the host community in which we operate are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in "Other receivables," "Investments in unconsolidated entities" and long-term "Other assets" in our Condensed Consolidated Balance Sheet, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$112 million and \$110 million as of June 30, 2014 and December 31, 2013, respectively.

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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Condensed Consolidating Financial Statements

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

CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2014  
(Unaudited)

|                                                | WM              | WM<br>Holdings  | Non-<br>Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|------------------------------------------------|-----------------|-----------------|-----------------------------------|--------------------|------------------|
| <b>ASSETS</b>                                  |                 |                 |                                   |                    |                  |
| Current assets:                                |                 |                 |                                   |                    |                  |
| Cash and cash equivalents                      | \$ —            | \$ —            | \$ 137                            | \$ —               | \$ 137           |
| Other current assets                           | —               | 6               | 2,212                             | —                  | 2,218            |
|                                                | —               | 6               | 2,349                             | —                  | 2,355            |
| Property and equipment, net                    | —               | —               | 12,031                            | —                  | 12,031           |
| Investments in and advances to affiliates      | 11,924          | 16,774          | 4,993                             | (33,691)           | —                |
| Other assets                                   | 42              | 27              | 7,724                             | —                  | 7,793            |
| Total assets                                   | <u>\$11,966</u> | <u>\$16,807</u> | <u>\$ 27,097</u>                  | <u>\$ (33,691)</u> | <u>\$ 22,179</u> |
| <b>LIABILITIES AND EQUITY</b>                  |                 |                 |                                   |                    |                  |
| Current liabilities:                           |                 |                 |                                   |                    |                  |
| Current portion of long-term debt              | \$ 456          | \$ —            | \$ 330                            | \$ —               | \$ 786           |
| Accounts payable and other current liabilities | 77              | 13              | 2,104                             | —                  | 2,194            |
|                                                | 533             | 13              | 2,434                             | —                  | 2,980            |
| Long-term debt, less current portion           | 5,580           | 449             | 2,982                             | —                  | 9,011            |
| Other liabilities                              | —               | —               | 4,041                             | —                  | 4,041            |
| Total liabilities                              | 6,113           | 462             | 9,457                             | —                  | 16,032           |
| Equity:                                        |                 |                 |                                   |                    |                  |
| Stockholders' equity                           | 5,853           | 16,345          | 17,346                            | (33,691)           | 5,853            |
| Noncontrolling interests                       | —               | —               | 294                               | —                  | 294              |
|                                                | 5,853           | 16,345          | 17,640                            | (33,691)           | 6,147            |
| Total liabilities and equity                   | <u>\$11,966</u> | <u>\$16,807</u> | <u>\$ 27,097</u>                  | <u>\$ (33,691)</u> | <u>\$ 22,179</u> |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)**

**December 31, 2013**

|                                                | <u>WM</u>       | <u>WM</u><br><u>Holdings</u> | <u>Non-</u><br><u>Guarantor</u><br><u>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------------------------------------|-----------------|------------------------------|--------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                  |                 |                              |                                                        |                     |                     |
| Current assets:                                |                 |                              |                                                        |                     |                     |
| Cash and cash equivalents                      | \$ —            | \$ —                         | \$ 58                                                  | \$ —                | \$ 58               |
| Other current assets                           | <u>—</u>        | <u>6</u>                     | <u>2,435</u>                                           | <u>—</u>            | <u>2,441</u>        |
|                                                | —               | 6                            | 2,493                                                  | —                   | 2,499               |
| Property and equipment, net                    | —               | —                            | 12,344                                                 | —                   | 12,344              |
| Investments in and advances to affiliates      | 12,133          | 16,246                       | 4,268                                                  | (32,647)            | —                   |
| Other assets                                   | <u>42</u>       | <u>12</u>                    | <u>7,706</u>                                           | <u>—</u>            | <u>7,760</u>        |
| Total assets                                   | <u>\$12,175</u> | <u>\$16,264</u>              | <u>\$ 26,811</u>                                       | <u>\$ (32,647)</u>  | <u>\$ 22,603</u>    |
| <b>LIABILITIES AND EQUITY</b>                  |                 |                              |                                                        |                     |                     |
| Current liabilities:                           |                 |                              |                                                        |                     |                     |
| Current portion of long-term debt              | \$ 587          | \$ —                         | \$ 139                                                 | \$ —                | \$ 726              |
| Accounts payable and other current liabilities | <u>109</u>      | <u>13</u>                    | <u>2,166</u>                                           | <u>—</u>            | <u>2,288</u>        |
|                                                | 696             | 13                           | 2,305                                                  | —                   | 3,014               |
| Long-term debt, less current portion           | 5,772           | 449                          | 3,279                                                  | —                   | 9,500               |
| Other liabilities                              | <u>—</u>        | <u>—</u>                     | <u>4,087</u>                                           | <u>—</u>            | <u>4,087</u>        |
| Total liabilities                              | 6,468           | 462                          | 9,671                                                  | —                   | 16,601              |
| Equity:                                        |                 |                              |                                                        |                     |                     |
| Stockholders' equity                           | 5,707           | 15,802                       | 16,845                                                 | (32,647)            | 5,707               |
| Noncontrolling interests                       | <u>—</u>        | <u>—</u>                     | <u>295</u>                                             | <u>—</u>            | <u>295</u>          |
|                                                | 5,707           | 15,802                       | 17,140                                                 | (32,647)            | 6,002               |
| Total liabilities and equity                   | <u>\$12,175</u> | <u>\$16,264</u>              | <u>\$ 26,811</u>                                       | <u>\$ (32,647)</u>  | <u>\$ 22,603</u>    |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**Three Months Ended June 30, 2014**  
**(Unaudited)**

|                                                           | <u>WM</u>    | <u>WM</u><br><u>Holdings</u> | <u>Non-</u><br><u>Guarantor</u><br><u>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-----------------------------------------------------------|--------------|------------------------------|--------------------------------------------------------|---------------------|---------------------|
| Operating revenues                                        | \$ —         | \$ —                         | \$ 3,561                                               | \$ —                | \$ 3,561            |
| Costs and expenses                                        | —            | (34)                         | 3,063                                                  | —                   | 3,029               |
| Income from operations                                    | —            | 34                           | 498                                                    | —                   | 532                 |
| Other income (expense):                                   |              |                              |                                                        |                     |                     |
| Interest expense, net                                     | (87)         | (8)                          | (20)                                                   | —                   | (115)               |
| Equity in earnings of subsidiaries, net of taxes          | 262          | 233                          | —                                                      | (495)               | —                   |
| Other, net                                                | —            | —                            | (15)                                                   | —                   | (15)                |
|                                                           | <u>175</u>   | <u>225</u>                   | <u>(35)</u>                                            | <u>(495)</u>        | <u>(130)</u>        |
| Income before income taxes                                | 175          | 259                          | 463                                                    | (495)               | 402                 |
| Provision for (benefit from) income taxes                 | (35)         | (3)                          | 218                                                    | —                   | 180                 |
| Consolidated net income                                   | 210          | 262                          | 245                                                    | (495)               | 222                 |
| Less: Net income attributable to noncontrolling interests | —            | —                            | 12                                                     | —                   | 12                  |
| Net income attributable to Waste Management, Inc.         | <u>\$210</u> | <u>\$ 262</u>                | <u>\$ 233</u>                                          | <u>\$ (495)</u>     | <u>\$ 210</u>       |

**Three Months Ended June 30, 2013**  
**(Unaudited)**

|                                                           | <u>WM</u>    | <u>WM</u><br><u>Holdings</u> | <u>Non-</u><br><u>Guarantor</u><br><u>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-----------------------------------------------------------|--------------|------------------------------|--------------------------------------------------------|---------------------|---------------------|
| Operating revenues                                        | \$ —         | \$ —                         | \$ 3,526                                               | \$ —                | \$ 3,526            |
| Costs and expenses                                        | —            | 1                            | 3,015                                                  | —                   | 3,016               |
| Income from operations                                    | —            | (1)                          | 511                                                    | —                   | 510                 |
| Other income (expense):                                   |              |                              |                                                        |                     |                     |
| Interest expense, net                                     | (91)         | (8)                          | (22)                                                   | —                   | (121)               |
| Equity in earnings of subsidiaries, net of taxes          | 299          | 305                          | —                                                      | (604)               | —                   |
| Other, net                                                | —            | —                            | (6)                                                    | —                   | (6)                 |
|                                                           | <u>208</u>   | <u>297</u>                   | <u>(28)</u>                                            | <u>(604)</u>        | <u>(127)</u>        |
| Income before income taxes                                | 208          | 296                          | 483                                                    | (604)               | 383                 |
| Provision for (benefit from) income taxes                 | (36)         | (3)                          | 166                                                    | —                   | 127                 |
| Consolidated net income                                   | 244          | 299                          | 317                                                    | (604)               | 256                 |
| Less: Net income attributable to noncontrolling interests | —            | —                            | 12                                                     | —                   | 12                  |
| Net income attributable to Waste Management, Inc.         | <u>\$244</u> | <u>\$ 299</u>                | <u>\$ 305</u>                                          | <u>\$ (604)</u>     | <u>\$ 244</u>       |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)**

**Six Months Ended June 30, 2014**  
**(Unaudited)**

|                                                           | <b>WM</b>     | <b>WM<br/>Holdings</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|-----------------------------------------------------------|---------------|------------------------|--------------------------------------------|---------------------|---------------------|
| Operating revenues                                        | \$ —          | \$ —                   | \$ 6,957                                   | \$ —                | \$ 6,957            |
| Costs and expenses                                        | —             | (34)                   | 5,990                                      | —                   | 5,956               |
| Income from operations                                    | —             | 34                     | 967                                        | —                   | 1,001               |
| Other income (expense):                                   |               |                        |                                            |                     |                     |
| Interest expense, net                                     | (174)         | (16)                   | (46)                                       | —                   | (236)               |
| Equity in earnings of subsidiaries, net of taxes          | 543           | 519                    | —                                          | (1,062)             | —                   |
| Other, net                                                | —             | —                      | (27)                                       | —                   | (27)                |
|                                                           | 369           | 503                    | (73)                                       | (1,062)             | (263)               |
| Income before income taxes                                | 369           | 537                    | 894                                        | (1,062)             | 738                 |
| Provision for (benefit from) income taxes                 | (69)          | (6)                    | 354                                        | —                   | 279                 |
| Consolidated net income                                   | 438           | 543                    | 540                                        | (1,062)             | 459                 |
| Less: Net income attributable to noncontrolling interests | —             | —                      | 21                                         | —                   | 21                  |
| Net income attributable to Waste Management, Inc.         | <u>\$ 438</u> | <u>\$ 543</u>          | <u>\$ 519</u>                              | <u>\$ (1,062)</u>   | <u>\$ 438</u>       |

**Six Months Ended June 30, 2013**  
**(Unaudited)**

|                                                           | <b>WM</b>     | <b>WM<br/>Holdings</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|-----------------------------------------------------------|---------------|------------------------|--------------------------------------------|---------------------|---------------------|
| Operating revenues                                        | \$ —          | \$ —                   | \$ 6,862                                   | \$ —                | \$ 6,862            |
| Costs and expenses                                        | —             | 1                      | 5,949                                      | —                   | 5,950               |
| Income from operations                                    | —             | (1)                    | 913                                        | —                   | 912                 |
| Other income (expense):                                   |               |                        |                                            |                     |                     |
| Interest expense, net                                     | (180)         | (16)                   | (46)                                       | —                   | (242)               |
| Equity in earnings of subsidiaries, net of taxes          | 521           | 532                    | —                                          | (1,053)             | —                   |
| Other, net                                                | —             | —                      | (25)                                       | —                   | (25)                |
|                                                           | 341           | 516                    | (71)                                       | (1,053)             | (267)               |
| Income before income taxes                                | 341           | 515                    | 842                                        | (1,053)             | 645                 |
| Provision for (benefit from) income taxes                 | (71)          | (6)                    | 290                                        | —                   | 213                 |
| Consolidated net income                                   | 412           | 521                    | 552                                        | (1,053)             | 432                 |
| Less: Net income attributable to noncontrolling interests | —             | —                      | 20                                         | —                   | 20                  |
| Net income attributable to Waste Management, Inc.         | <u>\$ 412</u> | <u>\$ 521</u>          | <u>\$ 532</u>                              | <u>\$ (1,053)</u>   | <u>\$ 412</u>       |



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

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

|                                                                     | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-<br/>Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---------------------------------------------------------------------|--------------|------------------------|--------------------------------------------|---------------------|---------------------|
| <b><u>Three Months Ended June 30, 2014</u></b>                      |              |                        |                                            |                     |                     |
| Comprehensive income                                                | \$213        | \$ 262                 | \$ 288                                     | \$ (495)            | \$ 268              |
| Less: Comprehensive income attributable to noncontrolling interests | —            | —                      | 12                                         | —                   | 12                  |
| Comprehensive income attributable to Waste Management, Inc.         | <u>\$213</u> | <u>\$ 262</u>          | <u>\$ 276</u>                              | <u>\$ (495)</u>     | <u>\$ 256</u>       |
| <b><u>Three Months Ended June 30, 2013</u></b>                      |              |                        |                                            |                     |                     |
| Comprehensive income                                                | \$252        | \$ 299                 | \$ 283                                     | \$ (604)            | \$ 230              |
| Less: Comprehensive income attributable to noncontrolling interests | —            | —                      | 12                                         | —                   | 12                  |
| Comprehensive income attributable to Waste Management, Inc.         | <u>\$252</u> | <u>\$ 299</u>          | <u>\$ 271</u>                              | <u>\$ (604)</u>     | <u>\$ 218</u>       |
|                                                                     | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-<br/>Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| <b><u>Six Months Ended June 30, 2014</u></b>                        |              |                        |                                            |                     |                     |
| Comprehensive income                                                | \$437        | \$ 543                 | \$ 522                                     | \$ (1,062)          | \$ 440              |
| Less: Comprehensive income attributable to noncontrolling interests | —            | —                      | 21                                         | —                   | 21                  |
| Comprehensive income attributable to Waste Management, Inc.         | <u>\$437</u> | <u>\$ 543</u>          | <u>\$ 501</u>                              | <u>\$ (1,062)</u>   | <u>\$ 419</u>       |
| <b><u>Six Months Ended June 30, 2013</u></b>                        |              |                        |                                            |                     |                     |
| Comprehensive income                                                | \$422        | \$ 521                 | \$ 483                                     | \$ (1,053)          | \$ 373              |
| Less: Comprehensive income attributable to noncontrolling interests | —            | —                      | 20                                         | —                   | 20                  |
| Comprehensive income attributable to Waste Management, Inc.         | <u>\$422</u> | <u>\$ 521</u>          | <u>\$ 463</u>                              | <u>\$ (1,053)</u>   | <u>\$ 353</u>       |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

**Six Months Ended June 30, 2014**  
**(Unaudited)**

|                                                                                           | <u>WM</u>   | <u>WM<br/>Holdings</u> | <u>Non-<br/>Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-------------------------------------------------------------------------------------------|-------------|------------------------|--------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities:                                                     |             |                        |                                            |                     |                     |
| Consolidated net income                                                                   | \$ 438      | \$ 543                 | \$ 540                                     | \$ (1,062)          | \$ 459              |
| Equity in earnings of subsidiaries, net of taxes                                          | (543)       | (519)                  | —                                          | 1,062               | —                   |
| Other adjustments                                                                         | (39)        | —                      | 719                                        | —                   | 680                 |
| Net cash provided by (used in) operating activities                                       | (144)       | 24                     | 1,259                                      | —                   | 1,139               |
| Cash flows from investing activities:                                                     |             |                        |                                            |                     |                     |
| Acquisitions of businesses, net of cash acquired                                          | —           | —                      | (26)                                       | —                   | (26)                |
| Capital expenditures                                                                      | —           | —                      | (474)                                      | —                   | (474)               |
| Proceeds from divestitures of businesses (net of cash divested) and other sales of assets | —           | 42                     | 224                                        | —                   | 266                 |
| Net receipts from restricted trust and escrow accounts and other, net                     | —           | —                      | (60)                                       | —                   | (60)                |
| Net cash provided by (used in) investing activities                                       | —           | 42                     | (336)                                      | —                   | (294)               |
| Cash flows from financing activities:                                                     |             |                        |                                            |                     |                     |
| New borrowings                                                                            | 1,367       | —                      | 133                                        | —                   | 1,500               |
| Debt repayments                                                                           | (1,685)     | —                      | (240)                                      | —                   | (1,925)             |
| Cash dividends                                                                            | (349)       | —                      | —                                          | —                   | (349)               |
| Exercise of common stock options                                                          | 31          | —                      | —                                          | —                   | 31                  |
| Distributions paid to noncontrolling interests and other                                  | 1           | —                      | (24)                                       | —                   | (23)                |
| (Increase) decrease in intercompany and investments, net                                  | 779         | (66)                   | (713)                                      | —                   | —                   |
| Net cash provided by (used in) financing activities                                       | 144         | (66)                   | (844)                                      | —                   | (766)               |
| Effect of exchange rate changes on cash and cash equivalents                              | —           | —                      | —                                          | —                   | —                   |
| Increase (decrease) in cash and cash equivalents                                          | —           | —                      | 79                                         | —                   | 79                  |
| Cash and cash equivalents at beginning of period                                          | —           | —                      | 58                                         | —                   | 58                  |
| Cash and cash equivalents at end of period                                                | <u>\$ —</u> | <u>\$ —</u>            | <u>\$ 137</u>                              | <u>\$ —</u>         | <u>\$ 137</u>       |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)**

**Six Months Ended June 30, 2013**  
**(Unaudited)**

|                                                                                              | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-<br/>Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------------------------------------------------------------------|--------------|------------------------|--------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities:                                                        |              |                        |                                            |                     |                     |
| Consolidated net income                                                                      | \$ 412       | \$ 521                 | \$ 552                                     | \$ (1,053)          | \$ 432              |
| Equity in earnings of subsidiaries, net of taxes                                             | (521)        | (532)                  | —                                          | 1,053               | —                   |
| Other adjustments                                                                            | 14           | —                      | 676                                        | —                   | 690                 |
| Net cash provided by (used in) operating activities                                          | (95)         | (11)                   | 1,228                                      | —                   | 1,122               |
| Cash flows from investing activities:                                                        |              |                        |                                            |                     |                     |
| Acquisitions of businesses, net of cash acquired                                             | —            | —                      | (210)                                      | —                   | (210)               |
| Capital expenditures                                                                         | —            | —                      | (501)                                      | —                   | (501)               |
| Proceeds from divestitures of businesses (net of cash divested)<br>and other sales of assets | —            | —                      | 74                                         | —                   | 74                  |
| Net receipts from restricted trust and escrow accounts and<br>other, net                     | —            | —                      | (56)                                       | —                   | (56)                |
| Net cash provided by (used in) investing activities                                          | —            | —                      | (693)                                      | —                   | (693)               |
| Cash flows from financing activities:                                                        |              |                        |                                            |                     |                     |
| New borrowings                                                                               | 390          | —                      | 71                                         | —                   | 461                 |
| Debt repayments                                                                              | (455)        | —                      | (203)                                      | —                   | (658)               |
| Cash dividends                                                                               | (341)        | —                      | —                                          | —                   | (341)               |
| Exercise of common stock options                                                             | 98           | —                      | —                                          | —                   | 98                  |
| Distributions paid to noncontrolling interests and other                                     | 7            | —                      | (32)                                       | —                   | (25)                |
| (Increase) decrease in intercompany and investments, net                                     | 386          | 11                     | (397)                                      | —                   | —                   |
| Net cash provided by (used in) financing activities                                          | 85           | 11                     | (561)                                      | —                   | (465)               |
| Effect of exchange rate changes on cash and cash equivalents                                 | —            | —                      | (4)                                        | —                   | (4)                 |
| Increase (decrease) in cash and cash equivalents                                             | (10)         | —                      | (30)                                       | —                   | (40)                |
| Cash and cash equivalents at beginning of period                                             | 60           | —                      | 134                                        | —                   | 194                 |
| Cash and cash equivalents at end of period                                                   | <u>\$ 50</u> | <u>\$ —</u>            | <u>\$ 104</u>                              | <u>\$ —</u>         | <u>\$ 154</u>       |

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**WASTE MANAGEMENT, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**15. New Accounting Standard Pending Adoption**

In May 2014, the Financial Accounting Standards Board (“FASB”) amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended authoritative guidance associated with revenue recognition is effective for the Company January 1, 2017. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the amended guidance and have not determined whether the adoption will have a material impact on our consolidated financial statements.

**16. Subsequent Event**

On July 25, 2014, the Company signed a definitive Stock Purchase Agreement to sell our Wheelabrator business to an affiliate of Energy Capital Partners for \$1.94 billion in cash, subject to certain post-closing adjustments. Closing of the sale is expected to occur by the end of 2014, subject to the satisfaction of customary closing conditions and receipt of regulatory approvals. In conjunction with the sale, the Company will enter into a long-term agreement to supply waste to certain Wheelabrator facilities upon closing.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included under Item 1 and our Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

Some of the risks that we believe could affect our business and financial statements for 2014 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company include the following:

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

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

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

## **General**

Our principal executive offices are located at 1001 Fannin Street, Suite 4000, Houston, Texas 77002. Our telephone number at that address is (713) 512-6200. Our website address is [www.wm.com](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 “WM.”

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

## ***Overview***

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

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

- Pursue improved profitability through customer-focused segmentation, pricing discipline and strategic acquisitions;
- Continually emphasize cost control and investment in technology and systems that enhance the efficiency of our operations; and

- Invest in emerging technologies that offer alternatives to traditional disposal and generate additional value from the waste, recycling and other streams we manage.

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

Highlights of our financial results for the current quarter include:

- Revenues of \$3,561 million compared with \$3,526 million in the second quarter of 2013, an increase of \$35 million, or 1.0%. This increase in revenues is primarily attributable to (i) positive revenue growth from yield on our collection and disposal operations of \$66 million, or 2.3%, and (ii) acquisitions, particularly the acquisition of the RCI operations in July 2013, which increased revenue by \$37 million. These increases were partially offset by lower volumes and divestitures, which decreased our revenues by \$51 million and \$14 million, respectively;
- Operating expenses of \$2,301 million, or 64.6% of revenues, compared with \$2,311 million, or 65.5% of revenues, in the second quarter of 2013. This decrease of \$10 million is largely driven by improvements in our recycling business, partially offset by operating costs associated with the acquired RCI operations;
- Selling, general and administrative expenses remained flat at \$353 million compared to the second quarter of 2013, driven primarily by a favorable litigation resolution and our continued cost control initiatives;
- Income from operations of \$532 million, or 14.9% of revenues, compared with \$510 million, or 14.5% of revenues, in the second quarter of 2013; and
- Net income attributable to Waste Management, Inc. of \$210 million, or \$0.45 per diluted share, as compared with \$244 million, or \$0.52 per diluted share in the second quarter of 2013.

Our second quarter of 2014 results were affected by the following:

- The recognition of a pre-tax loss of \$25 million on the divestiture of our Puerto Rico operations and certain other collection and landfill assets. No tax benefit was recorded in connection with the loss. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment. These charges had a negative impact of \$0.12 on our diluted earnings per share; and
- The recognition of other net pre-tax charges of \$16 million, primarily as a result of a \$12 million impairment charge due to the decision to close a waste processing facility. These charges had a negative impact of \$0.03 on our diluted earnings per share.

Our second quarter of 2013 results were affected by the recognition of impairment and restructuring charges primarily related to an impairment of a waste-to-energy facility as result of projected operating losses. These charges had a negative impact of \$0.02 on our diluted earnings per share.

#### ***Free Cash Flow***

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



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

|                                                                                  | Three Months<br>Ended<br>June 30, |               | Six Months<br>Ended<br>June 30, |               |
|----------------------------------------------------------------------------------|-----------------------------------|---------------|---------------------------------|---------------|
|                                                                                  | 2014                              | 2013          | 2014                            | 2013          |
| Net cash provided by operating activities                                        | \$ 555                            | \$ 545        | \$1,139                         | \$1,122       |
| Capital expenditures                                                             | (208)                             | (235)         | (474)                           | (501)         |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 100                               | 37            | 266                             | 74            |
| Free cash flow                                                                   | <u>\$ 447</u>                     | <u>\$ 347</u> | <u>\$ 931</u>                   | <u>\$ 695</u> |

When comparing our cash flows from operating activities for the three and six months ended June 30, 2014 to the comparable periods in 2013, the increases of \$10 million and \$17 million, respectively, were primarily related to the higher cash earnings in the current year and favorable working capital changes. These improvements were partially offset by (i) higher income tax payments in the current year, (ii) higher annual incentive plan payments made in the first quarter of 2014 when compared to 2013 and (iii) the settlement of forward-starting swap liabilities in the first quarter of 2014.

The increase in proceeds from divestitures of businesses and other assets (net of cash divested) is largely driven by (i) the sale of our investment in Shanghai Environment Group (“SEG”) in the first quarter of 2014, which was part of our Wheelabrator business, for \$155 million; (ii) the sale of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014 for proceeds of \$80 million, including \$65 million in cash; and (iii) the sale of a vacant facility in the second quarter of 2014 for \$19 million.

### **Acquisitions**

*Greenstar, LLC* — On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent, based on changes in certain recyclable commodity indexes, and had an estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers.

*RCI Environnement, Inc.* — On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec.

### **Subsequent Event**

On July 25, 2014, the Company signed a definitive Stock Purchase Agreement to sell our Wheelabrator business to an affiliate of Energy Capital Partners for \$1.94 billion in cash, subject to certain post-closing adjustments. Closing of the sale is expected to occur by the end of 2014, subject to the satisfaction of customary closing conditions and receipt of regulatory approvals. In conjunction with the sale, the Company will enter into a long-term agreement to supply waste to certain Wheelabrator facilities upon closing.

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### ***Critical Accounting Estimates and Assumptions***

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are difficult to determine and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

### **Results of Operations**

#### ***Operating Revenues***

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, including Strategic Business Solutions, Energy and Environmental Services, recycling brokerage services, electronic recycling services, landfill gas-to-energy services, integrated medical waste services, expanded service offerings and solutions. Part of our expansion of services includes offering fluorescent bulb and universal waste mail-back through our LampTracker® program and portable self-storage services. In addition, we have made investments that involve the acquisition and development of interests in oil and gas producing properties. These operations are presented as “Other” in the table below. The following table summarizes revenues during each period (in millions):

|              | Three Months<br>Ended<br>June 30, |                | Six Months<br>Ended<br>June 30, |                 |
|--------------|-----------------------------------|----------------|---------------------------------|-----------------|
|              | 2014                              | 2013           | 2014                            | 2013            |
| Solid Waste: |                                   |                |                                 |                 |
| Tier 1       | \$ 885                            | \$ 891         | \$ 1,735                        | \$ 1,734        |
| Tier 2       | 1,650                             | 1,641          | 3,152                           | 3,157           |
| Tier 3       | 911                               | 871            | 1,758                           | 1,697           |
| Solid Waste  | 3,446                             | 3,403          | 6,645                           | 6,588           |
| Wheelabrator | 206                               | 215            | 436                             | 420             |
| Other        | 551                               | 554            | 1,098                           | 1,088           |
| Intercompany | (642)                             | (646)          | (1,222)                         | (1,234)         |
| Total        | <u>\$3,561</u>                    | <u>\$3,526</u> | <u>\$ 6,957</u>                 | <u>\$ 6,862</u> |

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

|                  | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                 |
|------------------|--------------------------------|----------------|------------------------------|-----------------|
|                  | 2014                           | 2013           | 2014                         | 2013            |
| Commercial       | \$ 856                         | \$ 855         | \$ 1,702                     | \$ 1,695        |
| Residential      | 643                            | 652            | 1,278                        | 1,297           |
| Industrial       | 574                            | 558            | 1,090                        | 1,070           |
| Other            | 88                             | 68             | 165                          | 126             |
| Total collection | 2,161                          | 2,133          | 4,235                        | 4,188           |
| Landfill         | 732                            | 716            | 1,364                        | 1,344           |
| Transfer         | 357                            | 345            | 663                          | 645             |
| Wheelabrator     | 206                            | 215            | 436                          | 420             |
| Recycling        | 351                            | 366            | 698                          | 724             |
| Other            | 396                            | 397            | 783                          | 775             |
| Intercompany     | (642)                          | (646)          | (1,222)                      | (1,234)         |
| Total            | <u>\$3,561</u>                 | <u>\$3,526</u> | <u>\$ 6,957</u>              | <u>\$ 6,862</u> |

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

|                              | Period-to-Period<br>Change for the<br>Three Months Ended<br>June 30,<br>2014 vs. 2013 |                                  | Period-to-Period<br>Change for the<br>Six Months Ended<br>June 30,<br>2014 vs. 2013 |                                  |
|------------------------------|---------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------------------------------------|----------------------------------|
|                              | Amount                                                                                | As a % of<br>Total<br>Company(a) | Amount                                                                              | As a % of<br>Total<br>Company(a) |
| Average yield(b)             | \$ 60                                                                                 | 1.7%                             | \$ 146                                                                              | 2.1%                             |
| Volume                       | (51)                                                                                  | (1.4)                            | (110)                                                                               | (1.6)                            |
| Internal revenue growth      | 9                                                                                     | 0.3                              | 36                                                                                  | 0.5                              |
| Acquisitions                 | 54                                                                                    | 1.5                              | 108                                                                                 | 1.6                              |
| Divestitures                 | (14)                                                                                  | (0.4)                            | (18)                                                                                | (0.3)                            |
| Foreign currency translation | (14)                                                                                  | (0.4)                            | (31)                                                                                | (0.4)                            |
| Total                        | <u>\$ 35</u>                                                                          | <u>1.0%</u>                      | <u>\$ 95</u>                                                                        | <u>1.4%</u>                      |

- (a) Calculated by dividing the amount of current period increase or decrease by the prior period's total Company revenue adjusted to exclude the impacts of divestitures for the current period (\$3,512 million and \$6,844 million for the three- and six-month periods, respectively).

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

|                                   | Period-to-Period<br>Change for the<br>Three Months Ended<br>June 30,<br>2014 vs. 2013 |                                     | Period-to-Period<br>Change for the<br>Six Months Ended<br>June 30,<br>2014 vs. 2013 |                                     |
|-----------------------------------|---------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------|
|                                   | Amount                                                                                | As a % of<br>Related<br>Business(i) | Amount                                                                              | As a % of<br>Related<br>Business(i) |
| Average yield:                    |                                                                                       |                                     |                                                                                     |                                     |
| Collection, landfill and transfer | \$ 67                                                                                 | 2.4%                                | \$ 138                                                                              | 2.5%                                |
| Waste-to-energy disposal(ii)      | (1)                                                                                   | (0.9)                               | (1)                                                                                 | (0.5)                               |
| Collection and disposal(ii)       | 66                                                                                    | 2.3                                 | 137                                                                                 | 2.4                                 |
| Recycling commodities             | (13)                                                                                  | (3.6)                               | (27)                                                                                | (3.8)                               |
| Electricity(ii)                   | 2                                                                                     | 3.1                                 | 29                                                                                  | 21.2                                |
| Fuel surcharges and mandated fees | 5                                                                                     | 2.9                                 | 7                                                                                   | 2.1                                 |
| Total                             | <u>\$ 60</u>                                                                          | 1.7%                                | <u>\$ 146</u>                                                                       | 2.1%                                |

- (i) Calculated by dividing the increase or decrease for the current period by the prior period's related business revenue, adjusted to exclude the impacts of divestitures for the current period. The table below summarizes the related business revenues for the three and six months ended June 30, 2013 adjusted to exclude the impacts of divestitures (in millions):

|                                   | Denominator                      |                                |
|-----------------------------------|----------------------------------|--------------------------------|
|                                   | Three Months<br>Ended<br>June 30 | Six Months<br>Ended<br>June 30 |
| Related business revenues:        |                                  |                                |
| Collection, landfill and transfer | \$ 2,798                         | \$ 5,446                       |
| Waste-to-energy disposal          | 115                              | 213                            |
| Collection and disposal           | 2,913                            | 5,659                          |
| Recycling commodities             | 362                              | 714                            |
| Electricity                       | 65                               | 137                            |
| Fuel surcharges and mandated fees | 172                              | 334                            |
| Total Company                     | <u>\$ 3,512</u>                  | <u>\$ 6,844</u>                |

- (ii) Average revenue growth from yield for "Collection and disposal" excludes all electricity-related revenues generated by our Wheelabrator business which is reported as "Electricity" revenues.

Our revenues increased \$35 million, or 1.0%, and \$95 million, or 1.4%, for the three and six months ended June 30, 2014, respectively, as compared with the prior year period. Our current periods' revenue growth has been driven by (i) increased revenue growth from our collection and disposal average yield; (ii) acquisitions, particularly the acquired RCI operations, which increased revenues by \$37 million and \$77 million for the three and six months ended June 30, 2014; (iii) higher electricity prices at our merchant waste-to-energy facilities, particularly in the first three months of 2014; and (iv) higher revenues provided by our fuel surcharge program. Offsetting these revenue increases were revenue declines due to lower volumes, lower recyclable commodity prices, divestitures, and foreign currency translation, which affects revenues from our Canadian operations.

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

*Average yield*

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

Revenue growth from collection and disposal average yield was \$66 million, or 2.3%, and \$137 million, or 2.4%, for the three and six months ended June 30, 2014, respectively, as compared with the prior year period. The details of our three principal collection lines of business are as follows (dollars in millions):

|             | Three Months Ended<br>June 30, 2014 |                                     | Six Months Ended<br>June 30, 2014 |                                     |
|-------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
|             | Amount                              | As a %<br>of<br>Related<br>Business | Amount                            | As a %<br>of<br>Related<br>Business |
| Commercial  | \$ 32                               | 4.2%                                | \$ 67                             | 4.4%                                |
| Industrial  | 22                                  | 4.2                                 | 48                                | 4.9                                 |
| Residential | 10                                  | 1.6                                 | 17                                | 1.3                                 |
|             | <u>\$ 64</u>                        |                                     | <u>\$ 132</u>                     |                                     |

Our year-over-year yield growth was driven largely by our pricing strategy implemented in 2013 that combined focused effort on price increases with lower rollbacks. Other drivers affecting the current period average yield include:

- We instituted a fee in April 2013 to help us recover a portion of the significant regulatory costs and fees, such as host fees and disposal taxes, which have not been recouped by our pricing programs. This fee contributed approximately \$14 million and \$30 million to our revenue growth for the three and six months ended June 30, 2014, respectively, principally in our collection business, with the most significant impact in our commercial line of business.
- Revenue growth from yield in our industrial line of business was aided by our continued expansion of the Energy and Environmental Services business, which typically has higher average rates due to extended transportation distances, special waste handling costs and higher disposal costs.
- In our residential line of business, we are focused on bidding on contracts that improve our yield performance and increase our overall returns. Our effort to increase yield in our residential line of business is a challenge principally due to a very competitive environment. A high percentage of our residential business is in municipal franchise markets, and many municipalities are facing significant budget challenges, which results in very competitive bid processes as we rebid contracts and try to win new contracts.
- Yield growth from our landfill and transfer station operations also increased for the three and six months ended June 30, 2014. Improving yield in our landfill business has proved to be a challenge, due, in part, to excess disposal capacity that exists in many of the markets in which we own or operate landfills.

*Electricity* — Revenue increased \$2 million and \$29 million for the three and six months ended June 30, 2014, respectively, as compared with same prior year period. The year-to-date revenue increase is driven by higher prices at our merchant waste-to-energy facilities due to the exceptionally cold winter conditions that drove a higher demand for electricity in the first three months in 2014 as compared with the prior year period.

*Recycling commodities* — Decreases in the prices of the recycling commodities we sold resulted in revenue declines of \$13 million and \$27 million for the three and six months ended June 30, 2014, respectively, compared with the same prior year periods.

*Fuel surcharges and mandated fees* — These revenues, which are predominantly generated by our fuel surcharge program, increased by \$5 million and \$7 million for the three and six months ended June 30, 2014, respectively, driven in part, by higher fuel prices in the second quarter in 2014. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. Although we experienced slightly lower year-over-year average fuel prices in the first six months of 2014 as compared with the prior year period, our fuel surcharge revenues increased as a result of a revision of the surcharge calculation implemented to better capture price increases intended to be recovered by the surcharge. The mandated fees included in this line item are primarily related to pass-through fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations.

*Volume* — Changes in our volume caused our revenue to decrease \$51 million, or 1.4%, and \$110 million, or 1.6%, for the three and six months ended June 30, 2014, respectively, as compared with the comparable prior year period, driven by declines in our collection business. Our volume fluctuations are generally attributable to economic conditions, pricing changes, competition and diversion of waste by customers. Specifically, our revenue growth due to volume has been negatively affected by our pricing strategy implemented in 2013. We are experiencing volume decline due to the loss of low margin customers that we are not willing to keep at current rates. Additionally, we are experiencing losses of certain municipal contracts that are up for bid. As a result of both the very competitive environment and our focus on reasonable returns, we are facing challenges to keep existing contracts and to win new contracts. Finally, we experienced revenue declines associated with the loss of certain strategic accounts.

Other drivers affecting volumes in the current three- and six-month periods include:

- We experienced revenue declines of approximately \$23 million associated with the severe winter weather conditions in the first quarter of 2014.
- We experienced higher landfill volumes in 2014 driven, in part, by our municipal solid waste business and the event driven increases in our special waste and other landfill businesses.
- We experienced revenue increases due to higher volumes in our ancillary services, primarily driven by increases in our Energy and Environmental Services and our WM Renewable Energy Program.

Our pricing actions and our focus on controlling variable costs have consistently provided margin improvements in our collection line of business, although in the current year, our year-over-year margin was flat. While margins in our industrial line of business continued to expand, we did see margin deterioration in our commercial and residential line of business. The severe weather conditions we experienced in the first quarter of 2014 contributed to the flattening of our year-over-year collection margin for the six months ended June 30, 2014.

*Acquisitions and Divestitures* — Revenues increased \$54 million and \$108 million for the three and six months ended June 30, 2014, respectively, as compared with the prior year period due to acquisitions. This increase was principally associated with the acquired RCI operations, which is reported primarily in our collection line of business. These revenues were partially offset by revenue decreases of \$14 million and \$18 million for the three and six months ended June 30, 2014, respectively, as compared with the prior year period primarily due to the divestiture of our Puerto Rico operations in the second quarter of 2014.

#### ***Operating Expenses***

Our operating expenses decreased by \$10 million, or 0.4%, and increased \$13 million, or 0.3%, for the three and six months ended June 30, 2014, respectively, as compared with the three and six months ended June 30, 2013. Our operating expenses as a percentage of revenues decreased to 64.6% in the second quarter of 2014 from 65.5% in the second quarter of 2013, and decreased to 65.2% for the six months ended June 30, 2014 from 65.9% for the six months ended June 30, 2013.

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

|                                       | Three Months Ended June 30, |                 | Period-to-Period Change |               | Six Months Ended June 30, |                 | Period-to-Period Change |             |
|---------------------------------------|-----------------------------|-----------------|-------------------------|---------------|---------------------------|-----------------|-------------------------|-------------|
|                                       | 2014                        | 2013            |                         |               | 2014                      | 2013            |                         |             |
| Labor and related benefits            | \$ 630                      | \$ 626          | \$ 4                    | 0.6%          | \$ 1,236                  | \$ 1,233        | \$ 3                    | 0.2%        |
| Transfer and disposal costs           | 245                         | 257             | (12)                    | (4.7)         | 462                       | 482             | (20)                    | (4.1)       |
| Maintenance and repairs               | 306                         | 301             | 5                       | 1.7           | 609                       | 603             | 6                       | 1.0         |
| Subcontractor costs                   | 311                         | 294             | 17                      | 5.8           | 611                       | 573             | 38                      | 6.6         |
| Cost of goods sold                    | 252                         | 256             | (4)                     | (1.6)         | 489                       | 494             | (5)                     | (1.0)       |
| Fuel                                  | 152                         | 154             | (2)                     | (1.3)         | 302                       | 302             | —                       | —           |
| Disposal and franchise fees and taxes | 172                         | 170             | 2                       | 1.2           | 326                       | 319             | 7                       | 2.2         |
| Landfill operating costs              | 65                          | 54              | 11                      | 20.4          | 125                       | 112             | 13                      | 11.6        |
| Risk management                       | 54                          | 62              | (8)                     | (12.9)        | 110                       | 124             | (14)                    | (11.3)      |
| Other                                 | 114                         | 137             | (23)                    | (16.8)        | 263                       | 278             | (15)                    | (5.4)       |
|                                       | <u>\$ 2,301</u>             | <u>\$ 2,311</u> | <u>\$ (10)</u>          | <u>(0.4)%</u> | <u>\$ 4,533</u>           | <u>\$ 4,520</u> | <u>\$ 13</u>            | <u>0.3%</u> |

Significant changes in our operating expenses are discussed below.

*Labor and related benefits* — Significant items affecting the comparability of expenses for the periods presented include:

- Headcount, exclusive of acquisitions, decreased in the current period compared to the prior year period;
- Higher wages due to merit increases effective in the second quarters of 2013 and 2014;
- Increased health and welfare costs;
- Increased incentive compensation; and
- Decreased contract labor principally attributed to the collection line of business.

*Subcontractor costs* — The current period increases in subcontractor costs were primarily driven by the acquired RCI operations and remediation services within Energy and Environmental Services.

*Cost of goods sold* — Significant items affecting the comparability of expenses for the periods presented include:

- Increased efforts to reduce controllable recycling rebates paid to customers;
- Better alignment of rebate structures to commodity prices for new recycling contracts;
- Ongoing recycling business improvement efforts around inbound quality control;
- Lower commodity prices;
- Increases related to the acquired RCI operations; and
- Increased business in Organic Growth and remediation services.

*Fuel* — The decrease in fuel expense when compared to the prior year period was driven by (i) lower fuel purchases due to reduced collection volumes; (ii) lower costs resulting from the conversion of our fleet to CNG vehicles; and (iii) lower fuel prices in the current year. These decreases were offset, in part, by (i) a retroactive CNG fuel excise tax credit recognized in the first quarter of 2013 and (ii) the expiration of the excise credit in 2014.

*Disposal and franchise fees and taxes* — The increase in costs when compared to the prior periods was due to (i) higher disposal fees driven by increased landfill volumes, including from the acquired RCI operations and (ii) higher municipal franchise fees relating to the collection line of business. These unfavorable variances were offset, in part, by a retroactive surcharge at one of our waste-to-energy facilities in the second quarter of 2013.

*Landfill operating costs* — The increases in the current period were driven primarily by (i) a favorable discount rate adjustment in the second quarter of 2013 and (ii) higher site maintenance costs during 2014.

*Risk management* — The decrease in risk management costs when compared to the prior periods was primarily due to lower uninsured losses and, to a lesser extent, decreased performance bond costs and workers compensation claims in the current year.

*Other* — The decrease is primarily due to the gain on the sale of a vacant facility in the second quarter of 2014.

#### ***Selling, General and Administrative***

Our selling, general and administrative expenses remained flat when comparing the three months ended June 30, 2014 to the prior year period and declined \$15 million, or 2.0%, when comparing the six month periods. As a percentage of revenue, our selling, general and administrative expenses decreased to 9.9% for the second quarter of 2014 from 10.0% for the second quarter of 2013, and decreased to 10.5% for the six months ended June 30, 2014 from 10.8% for the six months ended June 30, 2013.

The following table summarizes the major components of our selling, general and administrative expenses for the three- and six-month periods ended June 30 (dollars in millions):

|                            | Three Months Ended June 30, |              | Period-to-Period Change |           | Six Months Ended June 30, |              | Period-to-Period Change |               |
|----------------------------|-----------------------------|--------------|-------------------------|-----------|---------------------------|--------------|-------------------------|---------------|
|                            | 2014                        | 2013         |                         |           | 2014                      | 2013         |                         |               |
| Labor and related benefits | \$234                       | \$223        | \$11                    | 4.9%      | \$477                     | \$461        | \$ 16                   | 3.5%          |
| Professional fees          | 32                          | 34           | (2)                     | (5.9)     | 58                        | 66           | (8)                     | (12.1)        |
| Provision for bad debts    | 6                           | 6            | —                       | —         | 19                        | 26           | (7)                     | (26.9)        |
| Other                      | 81                          | 90           | (9)                     | (10.0)    | 174                       | 190          | (16)                    | (8.4)         |
|                            | <u>\$353</u>                | <u>\$353</u> | <u>\$—</u>              | <u>—%</u> | <u>\$728</u>              | <u>\$743</u> | <u>\$(15)</u>           | <u>(2.0)%</u> |

*Labor and related benefits* — Factors affecting the current year change in our labor and related benefits costs include (i) higher health and welfare and employee benefit costs in 2014, (ii) higher salaries and wages due primarily to merit increases and (iii) higher incentive compensation costs.

*Professional fees* — Our professional fees decreased primarily due to higher legal fees in 2013 and our concerted effort to reduce consulting fees in 2014.

*Provision for bad debts* — Our provision for bad debts was higher in 2013, primarily as a result of collection issues we experienced in our Puerto Rico operations during the first quarter of 2013.

*Other* — Other costs decreased primarily as a result of the reversal of a reserve in the second quarter of 2014 due to a favorable litigation resolution. Additionally, our continued focus on controlling costs resulted in a year-over-year decline in advertising costs.



### Depreciation and Amortization

The following table summarizes the components of our depreciation and amortization expense for the three- and six-month periods ended June 30 (dollars in millions):

|                                                 | Three Months Ended June 30, |              | Period-to-Period Change |           | Six Months Ended June 30, |              | Period-to-Period Change |               |
|-------------------------------------------------|-----------------------------|--------------|-------------------------|-----------|---------------------------|--------------|-------------------------|---------------|
|                                                 | 2014                        | 2013         |                         |           | 2014                      | 2013         |                         |               |
| Depreciation of tangible property and equipment | \$215                       | \$213        | \$ 2                    | 0.9%      | \$428                     | \$422        | \$ 6                    | 1.4%          |
| Amortization of landfill airspace               | 104                         | 107          | (3)                     | (2.8)     | 188                       | 203          | (15)                    | (7.4)         |
| Amortization of intangible assets               | 20                          | 19           | 1                       | 5.3       | 40                        | 37           | 3                       | 8.1           |
|                                                 | <u>\$339</u>                | <u>\$339</u> | <u>\$—</u>              | <u>—%</u> | <u>\$656</u>              | <u>\$662</u> | <u>\$ (6)</u>           | <u>(0.9)%</u> |

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

During the first half of 2014, we recognized net charges of \$37 million, primarily related to a \$25 million loss on the divestiture of our Puerto Rico operations and certain other collection and landfill assets as discussed further in Note 9 to the Condensed Consolidated Financial Statements and a \$12 million impairment charge due to the decision to close a waste processing facility.

During the first half of 2013, we recognized net charges of \$15 million, primarily related to a \$14 million impairment charge at a waste-to-energy facility as a result of projected operating losses. We wrote down the carrying value of the facility's property, plant and equipment to its estimated fair value. Also included are (i) \$6 million of losses on divestitures related to investments in oil and gas producing properties and (ii) \$4 million of charges primarily to impair goodwill related to certain of our operations, which are included in our "Other" operations in Note 8 to the Condensed Consolidated Financial Statements. These charges were offset, in part, by gains on divestitures of \$9 million, largely attributable to the sale of a transfer station in our Greater Mid-Atlantic Area.

### Income from Operations

The following table summarizes income from operations for the three- and six-month periods ended June 30 (dollars in millions):

|                     | Three Months Ended June 30, |               | Period-to-Period Change |             | Six Months Ended June 30, |               | Period-to-Period Change |             |
|---------------------|-----------------------------|---------------|-------------------------|-------------|---------------------------|---------------|-------------------------|-------------|
|                     | 2014                        | 2013          |                         |             | 2014                      | 2013          |                         |             |
| Solid Waste:        |                             |               |                         |             |                           |               |                         |             |
| Tier 1              | \$ 223                      | \$ 221        | \$ 2                    | 0.9%        | \$ 441                    | \$ 428        | \$ 13                   | 3.0%        |
| Tier 2              | 335                         | 325           | 10                      | 3.1         | 619                       | 623           | (4)                     | (0.6)       |
| Tier 3              | 149                         | 131           | 18                      | 13.7        | 273                       | 240           | 33                      | 13.8        |
| Solid Waste         | 707                         | 677           | 30                      | 4.4         | 1,333                     | 1,291         | 42                      | 3.3         |
| Wheelabrator        | 20                          | 4             | 16                      | *           | 54                        | 13            | 41                      | *           |
| Other               | (29)                        | (27)          | (2)                     | 7.4         | (47)                      | (68)          | 21                      | (30.9)      |
| Corporate and Other | (166)                       | (144)         | (22)                    | 15.3        | (339)                     | (324)         | (15)                    | 4.6         |
| Total               | <u>\$ 532</u>               | <u>\$ 510</u> | <u>\$ 22</u>            | <u>4.3%</u> | <u>\$1,001</u>            | <u>\$ 912</u> | <u>\$ 89</u>            | <u>9.8%</u> |

\* Percentage change does not provide a meaningful comparison.

*Solid Waste* — The most significant items affecting the results of operations of our Solid Waste business during the three and six months ended June 30, 2014 as compared with the prior year periods are summarized below:

- Our base business, excluding recycling, benefited from internal revenue growth as well as from increased fuel recovery;
- Our recycling business contributed favorably compared to the prior year periods principally due to (i) increased efforts to reduce controllable recycling rebates paid to customers; (ii) better alignment of rebate structures to commodity prices for new recycling contracts and (iii) ongoing business improvement efforts around inbound quality control. These favorable variances completely offset lower market prices for recyclable commodities and lower volumes;
- Increased labor costs due to merit increases effective in the second quarter and higher incentive compensation costs; and
- Higher repair and maintenance costs primarily in the current quarter.

In addition, the following items affected specific segments:

- Divestiture of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014, which were included in Tier 3 and Tier 1, respectively;
- Adverse weather in the first quarter of 2014 resulted in lower income from operations primarily in Tier 2;
- The accretive benefits of the acquired RCI operations, which are included in Tier 3;
- The gain on the sale of a vacant facility in the second quarter of 2014, which was included in Tier 3; and
- A reversal of a reserve in the second quarter of 2014 due to a favorable litigation resolution, which was included in Tier 1.

Significant items affecting the comparability of the remaining components of our results of operations for the three and six month periods ended June 30, 2014 are summarized below.

*Wheelabrator* — The increase in income from operations of our Wheelabrator business was driven in large part by higher electricity prices at our merchant waste-to-energy facilities due to the exceptionally cold winter conditions in the first quarter in 2014 as compared with the prior year period. Other items contributing to the variability included (i) impairment charges at a waste-to-energy facility as a result of projected operating losses in the second quarter of 2013 and (ii) lower repair and maintenance expenses in the current period due to differences in the timing and scope of planned maintenance activities.

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

- Improved results in our Strategic Business Solutions as a result of our system and process enhancements;
- Impairment charges incurred in the second quarter of 2014 primarily due to the decision to close a waste processing facility; and
- A favorable adjustment to accrued contingent consideration associated with a prior year acquisition.

*Corporate and Other* — The most significant items affecting the comparability of expenses for the periods presented include (i) increased health and welfare costs; (ii) a favorable discount rate adjustment to our environmental remediation obligations and recovery assets in the second quarter of 2013 due to increases in U.S. Treasury rates; (iii) higher incentive compensation primarily in the second quarter of 2014 and (iv) favorable risk management adjustments in 2014.

#### ***Equity in Net Losses of Unconsolidated Entities***

We recognized “Equity in net losses of unconsolidated entities” of \$13 million and \$22 million during the three and six months ended June 30, 2014, respectively, compared with \$8 million and \$16 million during the three and six months ended June 30, 2013, respectively. These losses are primarily related to our noncontrolling interests in two limited liability companies established to invest in and manage low-income housing properties

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and a refined coal facility, as well as (i) noncontrolling investments made to support our strategic initiatives and (ii) unconsolidated trusts for final capping, closure, post-closure or environmental obligations. The tax impacts realized as a result of our investments in low-income housing properties and the refined coal facility are discussed below in *Provision for Income Taxes*. Refer to Notes 5 and 13 to the Condensed Consolidated Financial Statements for more information related to these investments.

***Other, net***

We recognized other, net expense of \$2 million and \$5 million for the three and six months ended June 30, 2014, respectively, compared with other, net income of \$2 million for the three months ended June 30, 2013 and other, net expense of \$9 million for the six months ended June 30, 2013. In the first quarter of 2014, we sold our investment in SEG, which was part of our Wheelabrator business. We received cash proceeds from the sale of \$155 million. The losses recognized related to the sale were not material. During the first quarter of 2013, we recognized impairment charges of \$11 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value based on third-party investors' recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment recognized in the second quarter of 2013.

***Provision for Income Taxes***

We recorded a provision for income taxes of \$180 million during the second quarter of 2014, representing an effective income tax rate of 44.7%, compared with a provision for income taxes of \$127 million during the second quarter of 2013, representing an effective income tax rate of 33.2%. Our effective income tax rate for the first half of 2014 was 37.8% compared with 33.0% for the first half of 2013.

Our provision for income taxes during the second quarter of 2014 was unfavorably impacted by the divestiture of our Puerto Rico operations and certain other collection and landfill assets. No tax benefit was recorded in connection with the \$25 million loss incurred. In addition, we incurred \$32 million of tax charges to repatriate accumulated cash prior to the divestment.

Our investments in low-income housing properties and the refined coal facility reduced our provision for income taxes for the three and six months ended June 30, 2014 by \$14 million and \$25 million, respectively, and for the three and six months ended June 30, 2013 by \$16 million and \$26 million, respectively. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

***Noncontrolling Interests***

Net income attributable to noncontrolling interests was \$12 million and \$21 million for the three and six months ended June 30, 2014, respectively, and \$12 million and \$20 million for the three and six months ended June 30, 2013, respectively. These amounts are principally related to third parties' equity interests in two limited liability companies that own three waste-to-energy facilities operated by our Wheelabrator business. Refer to Note 13 to the Condensed Consolidated Financial Statements for information related to the consolidation of these variable interest entities.

## Liquidity and Capital Resources

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

The following is a summary of our cash and cash equivalents, restricted trust and escrow accounts and debt balances as of June 30, 2014 and December 31, 2013 (dollars in millions):

|                                                                                    | June 30,<br>2014 | December 31,<br>2013 |
|------------------------------------------------------------------------------------|------------------|----------------------|
| Cash and cash equivalents                                                          | \$ 137           | \$ 58                |
| Restricted trust and escrow accounts:                                              |                  |                      |
| Final capping, closure, post-closure and environmental remediation funds           | \$ 128           | \$ 125               |
| Tax-exempt bond funds                                                              | 14               | 27                   |
| Other                                                                              | 11               | 15                   |
| Total restricted trust and escrow accounts                                         | \$ 153           | \$ 167               |
| Debt:                                                                              |                  |                      |
| Current portion                                                                    | \$ 786           | \$ 726               |
| Long-term portion                                                                  | 9,011            | 9,500                |
| Total debt                                                                         | \$9,797          | \$ 10,226            |
| Increase in carrying value of debt due to hedge accounting for interest rate swaps | \$ 51            | \$ 59                |

As of June 30, 2014, we had (i) \$517 million of debt maturing within the next 12 months, including \$350 million of 6.375% senior notes that mature in March 2015 and \$102 million of tax-exempt bonds; (ii) \$105 million of short-term borrowings outstanding under the U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and (iii) \$905 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance portions of our current obligations on a long-term basis as of June 30, 2014, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$741 million of this debt as long-term and the remaining \$786 million as current obligations. The \$741 million classified as long-term is less than our unused and available capacity under our \$2.25 billion revolving credit facility of \$1.3 billion due to expected decreases in such available capacity within the next 12 months.

### Summary of Cash Flow Activity

The following is a summary of our cash flows for the six-month periods ended June 30 (in millions):

|                                           | Six Months<br>Ended<br>June 30, |          |
|-------------------------------------------|---------------------------------|----------|
|                                           | 2014                            | 2013     |
| Net cash provided by operating activities | \$1,139                         | \$1,122  |
| Net cash used in investing activities     | \$ (294)                        | \$ (693) |
| Net cash used in financing activities     | \$ (766)                        | \$ (465) |

*Net Cash Provided by Operating Activities* — The most significant items affecting the comparison of our operating cash flows for the six-month period ended June 30, 2014 with the comparable prior year period are summarized below:

- *Increase in earnings* — Our income from operations, excluding depreciation and amortization, increased by \$83 million on a year-over-year basis. Included in the earnings increase was approximately \$16 million of net charges, associated principally with net losses on the sale of divested operations that have no effect on cash flow provided by operating activities.

- *Increase in tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$75 million higher on a year-over-year basis due to higher pre-tax earnings, the expiration of the bonus depreciation provisions, and the divestiture of our Puerto Rico operations and certain other collection and landfill assets in the second quarter of 2014.
- *Increase in bonus payments* — Payments for our annual incentive plans are typically paid in the first quarter of the year for the prior year. The annual incentive plan payments made in the first quarter of 2014 exceeded those made in the first quarter of 2013 by \$73 million.
- *Forward-starting swaps* — During the first quarter of 2014, the forward-starting interest rate swaps associated with the anticipated issuance of senior notes in 2014 matured, and we paid cash of \$36 million to settle the liabilities related to the swaps. This cash payment has been classified as a change in “Accounts payable and accrued liabilities” within “Net cash provided by operating activities” in the Condensed Consolidated Statement of Cash Flows.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was favorably impacted by \$118 million on a year-over-year basis by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by variability in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable, which are affected by both cost changes and timing of payments.

*Net Cash Used in Investing Activities* — The most significant items included in our investing cash flows for the six-month periods ended June 30, 2014 and 2013 are summarized below:

- *Capital expenditures* — We used \$474 million in the first half of 2014 compared with \$501 million in the first half of 2013 for capital expenditures. Approximately \$167 million of our capital expenditures accrued in the fourth quarter of 2013 were paid in cash in the first quarter of 2014 compared with approximately \$171 million of our capital expenditures accrued in the fourth quarter of 2012 that were paid in cash in the first quarter of 2013.
- *Divestitures* — Proceeds from divestitures of businesses and other assets (net of cash divested) were \$266 million in the first half of 2014 compared with \$74 million in the first half of 2013. In the first quarter of 2014, we sold our investment in SEG and received cash proceeds of \$155 million. In the second quarter of 2014, we sold our Puerto Rico operations and certain other collection and landfill assets and received proceeds from the sale of \$80 million, consisting of \$65 million of cash and \$15 million of preferred stock.
- *Acquisitions* — Our spending on acquisitions was \$26 million in the first half of 2014 compared with \$210 million in the first half of 2013. In 2013, our acquisitions consisted primarily of the recycling operations of Greenstar, for which we paid \$170 million.

*Net Cash Used in Financing Activities* — During the first half of 2014, net cash used in financing activities was \$766 million, compared with \$465 million during the comparable prior year period. The most significant items affecting the comparison of our financing cash flows for the six-month periods ended June 30, 2014 and 2013 are summarized below:

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

|                                        | Six Months Ended June 30, |                 |
|----------------------------------------|---------------------------|-----------------|
|                                        | 2014                      | 2013            |
| <b>Borrowings:</b>                     |                           |                 |
| U.S. revolving credit facility         | \$ 1,020                  | \$ 390          |
| Canadian credit facility and term loan | 74                        | 25              |
| Senior notes                           | 347                       | —               |
| Capital leases and other debt          | 59                        | 46              |
|                                        | <u>\$ 1,500</u>           | <u>\$ 461</u>   |
| <b>Repayments:</b>                     |                           |                 |
| U.S. revolving credit facility         | \$(1,335)                 | \$(455)         |
| Canadian credit facility and term loan | (134)                     | (75)            |
| Senior notes                           | (350)                     | —               |
| Tax-exempt bonds                       | (15)                      | (67)            |
| Capital leases and other debt          | (91)                      | (61)            |
|                                        | <u>\$(1,925)</u>          | <u>\$(658)</u>  |
| <b>Net repayments</b>                  | <u>\$ (425)</u>           | <u>\$ (197)</u> |

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

- *Dividend payments* — We paid \$349 million in cash dividends in the first half of 2014 compared with \$341 million in the first half of 2013. The increase in dividend payments is primarily due to our quarterly per share dividend declared increasing from \$0.365 in 2013 to \$0.375 in 2014.
- *Share repurchases* — In February 2014, the Board of Directors authorized up to \$600 million in future share repurchases. No share repurchases were made in the first half of 2014.

#### ***Liquidity Impacts of Income Tax Items***

*Bonus Depreciation* — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

The acceleration of depreciation deductions related to qualifying capital expenditures in 2013 decreased our 2013 cash taxes by approximately \$70 million. However, taking accelerated depreciation deductions results in increased cash taxes in subsequent periods when the depreciation deductions related to the capital expenditures would have otherwise been taken. Overall, the effect of all applicable years' bonus depreciation programs results in increased cash taxes of \$40 million in 2013 and \$95 million in 2014.

*Uncertain Tax Positions* — We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are included as a component of long-term "Other liabilities" in our Condensed Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. We are not able to reasonably estimate when we would make

any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$9 million of liabilities for unrecognized tax benefits, including accrued interest, and \$3 million of related tax assets may be reversed within the next 12 months. The anticipated reversals are primarily related to state tax items, none of which are material, and are expected to result from the expiration of the applicable statute of limitations period.

#### **Off-Balance Sheet Arrangements**

We have financial interests in unconsolidated variable interest entities as discussed in Note 13 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the six months ended June 30, 2014, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

#### **New Accounting Standard Pending Adoption**

In May 2014, the Financial Accounting Standards Board (“FASB”) amended authoritative guidance associated with revenue recognition. The amended guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amendments will require enhanced qualitative and quantitative disclosures regarding customer contracts. The amended authoritative guidance associated with revenue recognition is effective for the Company January 1, 2017. The amended guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the amended guidance recognized at the date of initial application. We are in the process of assessing the provisions of the amended guidance and have not determined whether the adoption will have a material impact on our consolidated financial statements.

#### **Seasonal Trends**

Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

#### **Inflation**

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

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**Item 3.        *Quantitative and Qualitative Disclosures About Market Risk.***

Information about market risks as of June 30, 2014, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 4.        *Controls and Procedures.***

**Effectiveness of Controls and Procedures**

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2014 (the end of the period covered by this Quarterly Report on Form 10-Q).

**Changes in Internal Control over Financial Reporting**

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended June 30, 2014. We determined that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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## PART II.

### Item 1. *Legal Proceedings.*

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

### Item 1A. *Risk Factors.*

There have been no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013 in response to Item 1A to Part I of Form 10-K.

### Item 4. *Mine Safety Disclosures.*

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

### Item 6. *Exhibits.*

| <u>Exhibit<br/>No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                        |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1                    | — Officers’ Certificate delivered pursuant to Section 301 of the Indenture dated September 10, 1997 by and between Waste Management, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, establishing the terms and form of the 3.50% Senior Notes due 2024 [incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed May 8, 2014]. |
| 4.2                    | — Guarantee Agreement by Waste Management Holdings, Inc. in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee for the holders of the 3.50% Senior Notes due 2024 [incorporated by reference to Exhibit 4.4 to Current Report on Form 8-K filed May 8, 2014].                                                                                           |
| 4.3                    | — Amended and Restated By-laws of Waste Management Holdings, Inc.                                                                                                                                                                                                                                                                                                         |
| 10.1                   | — Waste Management, Inc. 2014 Stock Incentive Plan [incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 15, 2014].                                                                                                                                                                                                                          |
| 31.1                   | — Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer.                                                                                                                                                                                              |
| 31.2                   | — Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.                                                                                                                                                                             |
| 32.1                   | — Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer.                                                                                                                                                                                                                                                                   |
| 32.2                   | — Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.                                                                                                                                                                                                                                                  |
| 95                     | — Mine Safety Disclosures.                                                                                                                                                                                                                                                                                                                                                |
| 101.INS                | — XBRL Instance Document.                                                                                                                                                                                                                                                                                                                                                 |
| 101.SCH                | — XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                                                                                                                                |
| 101.CAL                | — XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                                                                                                                                  |
| 101.DEF                | — XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                                                                                                                                   |
| 101.LAB                | — XBRL Taxonomy Extension Labels Linkbase Document.                                                                                                                                                                                                                                                                                                                       |
| 101.PRE                | — XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                                                                                                                                 |

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

WASTE MANAGEMENT, INC.

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

Date: July 29, 2014

**AMENDED AND RESTATED BY-LAWS  
OF  
Waste Management Holdings, Inc.  
(hereinafter called the "Corporation")**

**ARTICLE I  
OFFICES**

**Section 1. Registered Office.** The registered office of the Corporation shall be c/o CT Corporation System, 1209 Orange Street, Wilmington, Delaware 19801.

**Section 2. Other Offices.** The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

**ARTICLE II  
MEETINGS OF STOCKHOLDERS**

**Section 1. Place of Meetings.** Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

**Section 2. Annual Meetings.** The annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect directors and transact such other business as may properly be brought before the meeting. Written notice of each annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

**Section 3. Special Meetings.** Special meetings of stockholders may be called by the President or the Board of Directors. Notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting.

**Section 4. Quorum; Adjournment.** Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice of any such adjourned meeting other than announcement of the time and place thereof at the meeting at which the adjournment is taken, until a quorum shall be present or represented. Additionally, the chairman of the meeting shall have power to adjourn, postpone, or recess the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned, postponed, or recessed meeting. At any such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

**Section 5. Voting.** Unless otherwise required by law, the Certificate of Incorporation or these By-laws, (i) any question brought before any meeting of stockholders at which a quorum is present shall be decided by the vote of the holders of a majority of the outstanding shares of stock represented and entitled to vote thereon and (ii) each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three (3) years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholders and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting at the principal place of business of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

### ARTICLE III DIRECTORS

Section 1. Number and Election of Directors. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of one or more directors, the exact number of directors to be determined from time to time by resolution adopted by the affirmative vote of a majority of the directors then in office. At each annual meeting of stockholders beginning with the first, directors shall be elected. Each director shall hold office until the ensuing meeting or until such director's successor is elected and qualified or until such director's earlier death, resignation, or removal. Directors of the Corporation may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

Section 2. Vacancies. Any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director.

Section 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Corporation's Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the President or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the time of the meeting, by telephone, electronic facsimile or telegram not less than twelve (12) hours before the time of the meeting.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Corporation's Certificate of Incorporation or these By-laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of Board. Unless otherwise provided by the Corporation's Certificate of Incorporation or these By-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or electronic transmission is filed with the minutes of proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Corporation's Certificate of Incorporation or these By-laws, members of the Board of Directors of the Corporation, or any committee

designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 of this Article III shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 9. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

#### ARTICLE IV OFFICERS

Section 1. General. The offices of the Corporation shall be chosen by the Board of Directors and shall be a President and a Secretary. The Board of Directors, in its discretion, may also choose one Treasurer and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Corporation's Certificate of Incorporation or these By-laws. The officers of the Corporation need not be stockholders of the Corporation nor need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer may be removed at any time with or without cause by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries and other compensation of all officers of the Corporation shall be fixed by the Board of Directors.

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**Section 3. Voting Securities Owned by the Corporation.** Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

**Section 4. The President.** The President shall be the chief executive officer and the chief operating officer of the Corporation, shall have general direction of the business and affairs of the Corporation and general supervision over its several officers, subject, however, to the control of the Board of Directors and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President may sign certificates representing shares of stock of the Corporation. The President may execute and deliver, in the name and on behalf of the Corporation, (i) contracts or other instruments authorized by the Board of Directors and (ii) contracts or instruments in the usual and regular course of business except in cases when the execution and delivery thereof shall be expressly delegated or permitted by the Board of Directors or by these By-laws to some other officer or agent of the Corporation. The President shall preside at meetings of the stockholders. In addition, the President shall perform all other duties incident to the office of President and have such other powers and perform such other duties as from time to time may be assigned to him by the Board of Directors or as are prescribed by these By-laws.

**Section 5. Vice Presidents.** Vice Presidents, if there be any, shall perform all duties incident to the office of Vice President and have such other powers and perform such other duties as from time to time may be assigned to him by these By-laws, by the Board of Directors or by the President. The Vice President may sign certificates of stock of the Corporation. In the absence or disability of the President, a Vice President may preside at meetings of the stockholders.

**Section 6. Secretary.** The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by such officer's signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be. In addition, the Secretary shall perform all other duties incident to the office of the Secretary and have such other powers and perform such other duties as may be prescribed by the Board of Directors or the President.

**Section 7. Treasurer.** The Treasurer, if there be one, shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. In addition, the Treasurer shall perform all other duties incident to the office of the Treasurer and have such other powers and perform such other duties as may be prescribed by the Board of Directors or the President.

**Section 8. Assistant Secretaries.** Except as may be otherwise provided in these By-laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of the Secretary's disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

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Section 9. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of the Treasurer's disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer.

Section 10. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

## ARTICLE V STOCK

Section 1. Form of Certificates. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock in the Corporation represented by certificates shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman or Vice-Chairman of the Board, if any, or the President or a Vice President and (ii) by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer of the Corporation, certifying the number of shares owned by such holder of stock in the Corporation.

Section 2. Signatures. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or such owner's legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls

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and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

## ARTICLE VI NOTICES

Section 1. Notices. Whenever notice is required by law, the Corporation's Certificate of Incorporation or these By-laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice may also be given personally, by telephone or by electronic transmission.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Corporation's Certificate of Incorporation or these By-laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

## ARTICLE VII GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to applicable law and the provisions of the Corporation's Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal, if there shall be one, shall be in such form as the Board of Directors may prescribe.

Section 5. Contracts. Except as otherwise provided in these By-laws or by law or as otherwise directed by the Board of Directors, the President, any Vice President, the Treasurer, the Assistant Treasurer, the Secretary, or the Assistant Secretary shall be authorized to execute and deliver, in the name and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate, shall be affixed thereto by any such officer or the Secretary or an Assistant Secretary. The Board of Directors or the President or, if designated by the Board of Directors or the President, then any Vice President or the Secretary, may authorize any other officer, employee, or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board of Directors or any such officer may be general or confined to specific conditions. Subject to the foregoing provisions, the Board of Directors may authorize any officer, officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 6. Checks, Etc. All checks, demands, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation may be signed by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate and,



if so required by the Board of Directors, shall be countersigned by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate, and in such manner, as shall be determined by the Board of Directors.

Section 7. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select. Checks, drafts, bills of exchange, acceptances, notes, obligations, and orders for payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the President, the Treasurer, the Assistant Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate.

Section 8. Loans. No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized so to do, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company, or other institution or from any individual, corporation, or firm, and for such loans and advances may make, execute, and deliver promissory notes, bonds, or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate, or transfer as security for the payment of any and all loans, advances, indebtedness, and liabilities of the Corporation, any and all stocks, securities, and other real or personal property at any time held by the Corporation and to that end may endorse, assign, and deliver same. Such authority may be general or confined to specific instances.

## ARTICLE VIII INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings Other than Those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer, of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by the

Board of Directors by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

**Section 4. Indemnification by a Court.** Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 4 of this Article VIII shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

**Section 5. Expenses Payable in Advance.** Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding may be required by the Board of Directors to be paid (upon such terms and conditions, if any, as the Board deems appropriate) by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

**Section 6. Nonexclusivity of Indemnification and Advancement of Expenses.** The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in a person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Section 1 of Section 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

**Section 7. Insurance.** The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by him in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article VIII.

**Section 8. Certain Definitions.** For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such indemnification relates to such person's acts while serving in any of the foregoing capacities, of such constituent corporation, as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the

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Corporation” shall include any service as a director or officer of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VIII.

Section 9. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 10. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 4 of this Article VIII), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 11. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

## ARTICLE IX AMENDMENTS

Section 1. Except as otherwise provided in the Corporation’s Certificate of Incorporation, these By-laws may be altered, amended or repealed, in whole or in part, or new By-laws may be adopted by the stockholders or by the Board of Directors. Except as otherwise provided in the Corporation’s Certificate of Incorporation, all such amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors then in office.

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

I, David P. Steiner, certify that:

- i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;
- ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:
  - A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ DAVID P. STEINER

David P. Steiner  
*President and Chief Executive Officer*

Date: July 29, 2014

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

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

- i. I have reviewed this report on Form 10-Q of Waste Management, Inc.;
- ii. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- iii. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- iv. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d — 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:
  - A. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - B. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - C. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - D. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- v. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - A. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: July 29, 2014

**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, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Steiner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ DAVID P. STEINER  
David P. Steiner  
*President and Chief Executive Officer*

July 29, 2014

**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, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Fish, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

July 29, 2014

**Mine Safety Disclosures**

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

During the quarter ended June 30, 2014, we did not receive any of the following: (a) a citation from the U.S. Mine Safety and Health Administration (“MSHA”) for a violation of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under section 104 of the Federal Mine Safety and Health Act of 1977 (the “Mine Safety Act”); (b) an order issued under section 104(b) of the Mine Safety Act; (c) a citation or order for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under section 104(d) of the Mine Safety Act; (d) a flagrant violation under section 110(b)(2) of the Mine Safety Act; (e) an imminent danger order under section 107(a) of the Mine Safety Act; or (f) a proposed assessment from the MSHA.

In addition, during the quarter ended June 30, 2014, we had no mining-related fatalities, we had no pending legal actions before the Federal Mine Safety and Health Review Commission involving a coal or other mine, and we did not receive any written notice from the MSHA involving a pattern of violations, or the potential to have such a pattern, of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under section 104(e) of the Mine Safety Act.







# Where Opportunity and Innovation Meet





From the family that recycles diligently to the business reengineering itself to operate more sustainably, the world views waste differently today.

At Waste Management, our aim is to address, and anticipate, the current, expanding and evolving needs of our customers. Increasingly, customers want more of their waste materials recovered, while waste streams are becoming more complex. Communities want to 'go green', but getting there requires educated consumers who understand what can be recycled, and perhaps even more important, what cannot. Businesses want more environmentally sustainable operations that lower their costs and provide value to their organizations, but they may need help in creating a road map to achieve these goals.

Waste Management sees each of these challenges as an opportunity to apply breakthrough thinking, technology, and our experience and resources as the waste industry leader. We are uniquely equipped to meet our customers' waste management needs today and help them envision and create a more sustainable future, for themselves, for generations that will follow us, and for the planet. That's where opportunity and innovation meet.

**Waste Management, Inc.,** through its subsidiaries, is the leading provider of comprehensive waste management services in North America. It is also a leading developer, operator and owner of waste-to-energy and landfill-gas-to-energy facilities in the United States. During 2013, the company served nearly 21 million residential, commercial, industrial and municipal customers through a network of 390 collection operations, 310 transfer stations, 267 landfill disposal sites, 17 waste-to-energy plants, 120 recycling facilities, 36 organic processing facilities and 137 landfill-gas-to-energy projects.

To learn more about Waste Management, visit [www.wm.com](http://www.wm.com) or [www.thinkgreen.com](http://www.thinkgreen.com).

## To Our Shareholders, Customers, Employees and Communities:



**David P. Steiner**  
*President and CEO*

For Waste Management, 2013 was a year we were keenly focused on strengthening the fundamentals of our business while continuing to meet the evolving needs of our customers. After enduring two challenging years and completing a business restructuring in 2012, we elevated our performance in 2013 through yield improvement, capital management, greater efficiency,

and diligent cost control. At the same time, we continued to invest wisely in solutions to help our customers achieve their waste management goals.

Through the hard work and commitment of our more than 42,700 employees, Waste Management delivered solid financial results in 2013, while maintaining our industry leadership role in preparing for the future. We continued to execute our transformation strategy: to know and serve our customers better than anyone in our industry, to extract more value from the materials we manage, and to innovate and optimize our business.

### FINANCIAL PERFORMANCE

In 2013, we reported revenues of \$13.98 billion compared with \$13.65 billion for 2012, a 2.4 percent increase. Adjusted earnings per diluted share were \$2.15<sup>(a)</sup>; net cash from operating activities was \$2.46 billion; capital expenditures were \$1.27 billion; and free cash flow was \$1.32 billion<sup>(b)</sup>.

We returned \$922 million to shareholders through dividend and common stock repurchases in 2013.

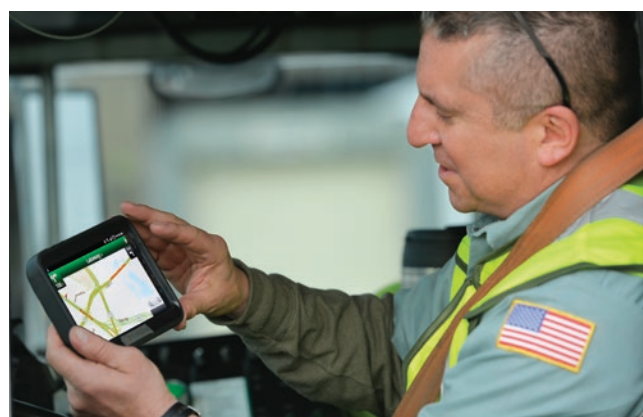
In early 2014, the board of directors announced its intention to increase the planned quarterly dividend in 2014 by \$0.04 to \$1.50 on an annual basis. This marks the eleventh consecutive year that we have raised our dividend. The board also authorized up to \$600 million in share repurchases. Future share repurchases will be made at the discretion of management and will depend on a number of factors, including our net earnings, financial condition, cash required for future business plans and other factors deemed relevant.

We expect to continue to use our free cash to pay our dividend, repurchase shares, reduce debt, and make acquisitions in our traditional solid waste business.

### OPERATIONAL IMPROVEMENTS PRODUCE RESULTS

Waste Management continued its operational transformation through process changes and technological advances including installation of on-board computers on our trucks, centralized dispatch and centralized routing. We began to certify hauling operations that demonstrate the high standards of a world-class logistics company, with certified sites delivering four-percent average cost savings in their operations. We also piloted a companion program to improve performance in our maintenance operations through standardized processes, coaching, accountability, continuous improvement and performance management.

Truck dispatch operations are now consolidated in most geographic areas. Dispatchers and routers are using enhanced technology and standardized processes, enabling us to be more efficient when sending trucks to our customers. And, we are rerouting trucks using a new process that teams centralized logistics engineers with managers and drivers to improve route efficiency. In our post-collection locations, we are focused on reducing costs such as heavy equipment maintenance and leachate controls, but never losing our focus on safe and compliant operations.



Our efforts to lower selling, general and administrative (SG&A) expenses produced very encouraging results for the year. In 2013, SG&A costs were our lowest in nearly a decade.

We also took a major step to improve safety by completing installation of event recorders in 16,900 of our U.S. trucks. These devices are proving instrumental in helping reduce incident severity and providing a platform to reduce fuel costs by coaching drivers on proper operation.

(a) See last page of this 2013 Annual Report for a discussion and reconciliation of this non-GAAP measure.

(b) See page 36 of our Annual Report on Form 10-K (enclosed herein) for a discussion and reconciliation of this non-GAAP measure.

This document contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Please see page 17 of our Annual Report on Form 10-K (enclosed herein) for further information.



The conversion of our heavy-duty collection fleet to compressed natural gas (CNG) fuel continued in 2013. Ninety-four percent of the trucks we purchased during the year operate on CNG, expanding the largest fleet of its kind in the waste industry.

Every truck we replace with natural gas reduces our diesel fuel use by an average of 8,000 gallons per year and per-truck greenhouse gas emissions by 21 percent, while reducing maintenance costs. Today we have more than 3,000 natural gas trucks on the road and have exceeded our 2020 sustainability goal of lowering our fleet emissions by 15 percent. Build out of CNG fueling stations continued through the year and we now have 57 stations operating in 22 states and two Canadian provinces. Eighteen of the stations serve the public or third parties as well as our fleet.

In addition to surpassing our target for fleet emission reduction, we have exceeded our 2020 sustainability goals for acreage protection and creation of certified wildlife habitat sites. We continue to pursue our goals for managing recyclables tonnage and producing waste-based energy.

We continue to look for ways to make it easy for our customers to do business with us. Our main website, [wm.com](http://wm.com), hosts some 1.5 million visits per month and generates significant



online sales revenue. The site is also evolving as a customer tool for billing, scheduling and general account management. Functionality added to the site enables customers to check the status of their pickups, schedule roll-off container pickups, and check collection schedules. We also launched an account management app, WM Mobile, to give customers easy access to their accounts using a smartphone or tablet.

## TAILORED SOLUTIONS MEET CUSTOMER NEEDS

Conducting business in an environmentally sustainable manner is a growing priority across industries and throughout public institutions. Waste Management is helping customers implement strategies to increase waste diversion rates and manage diversion programs.

We provide sustainability expertise and project management in the United States and Canada through our Waste Management Sustainability Services network of environmental professionals. Our services help our customers realize their environmental goals by recommending business practices to reduce waste, save energy and provide a “next life” for material they no longer need. Our consultants also advise customers on strategies to design better products through intelligent material choice.

The benefits of pursuing a sustainability agenda are apparent at Renaissance Center in Dearborn, Mich., the headquarters of General Motors. Working with Waste Management and other partners, GM expects to divert each year approximately five million pounds of waste generated by the massive six-tower complex containing businesses, a hotel, restaurants, and retailers.

The hydrocarbon exploration and production industry is among a number of industries capturing the benefits of sustainable operation. Our Waste Management Energy Service line of business provides single-source environmental management services to the oil and gas industry, including pad services, industrial cleaning, transportation, storage, recycling, liquid and solid waste treatment and disposal processes. In 2013, we acquired two North Dakota energy services companies, Summit Energy Services and Liquid Logistics. These acquisitions greatly enhance our environmental service offerings to oil and gas industry customers operating in the prolific Bakken Shale formation, one of the largest U.S. oil and gas fields.

Waste Management’s Think Green® Campus Model continues to expand its services to forward-thinking universities and colleges seeking to make the most of their waste. Our sustainability professionals work with campuses to improve waste reduction and resource recovery, analyze carbon footprints, and create road maps for achieving green goals.

The 2013 Waste Management Phoenix Open powerfully demonstrated the potential for sustainable operation by diverting 100 percent of tournament waste away from landfills and into recycling and composting facilities. Total diversion was a goal of the Zero Waste Challenge, a tournament initiative to control materials brought into the event and educate vendors and patrons about proper disposal of materials.

The tournament was the first PGA Tour event to earn Gold Certification from the Council for Responsible Sport for socially and environmentally responsible planning and execution.



The event also received the “Zero Waste to Landfill” claim validation from UL Environment, a business unit of UL (Underwriters Laboratories), which provides companies with third-party verification of environmental claims.

In 2013, we also assisted customers in validating their attainment of zero waste milestones established by the UL Environment program.

We further expanded our sustainability leadership during the year through a unique collaboration with globally recognized designer, sustainable growth pioneer and preeminent voice for the power of ecologically intelligent design, William McDonough. The initiative aims to foster and guide future product and packaging design innovation “up from the dumpster” among industry-leading companies. The collaboration focuses on directly serving producers, manufacturers, retailers and suppliers of packaged goods and products as they strive to advance their sustainability objectives and results.

### **INNOVATIONS CAPTURE VALUE FROM WASTE**

Virtually every form of waste can have a second act. Waste Management continues to be a leader in developing technologies and processes to repurpose the broad range of materials we handle for our customers. At the same time, we, like the rest of our industry, are subject to the market forces that influence demand for the materials we collect, including cardboard and paper, glass and plastic, industrial and hazardous waste, and food. In 2013, we identified and took steps we believe are needed to maintain an acceptable return on our investments in extracting waste’s value.

#### **Renewable Energy Solutions**

Landfill gas and waste are energy sources for generating electricity, producing renewable gas, and replacing fossil fuel for homes, industries and vehicles. Waste Management produced approximately 1,400 megawatts of energy in 2013,

enough to power more than 1.1 million homes. We produced as much electricity as the nation’s utility solar industry, according to U.S. Department of Energy data.

In 2013, we brought three new landfill-gas-to-energy facilities on line. We now have 137 plants in operation, which collectively generate 683 megawatts of power annually.

Our Wheelabrator Technologies subsidiary operates 17 plants that use waste as a clean-burning, renewable fuel to generate electricity for nearby communities. These plants had a power generating capacity of 669 megawatts in 2013. In addition, Wheelabrator operates four independent power plants that convert a variety of fuels and waste materials into power. Wheelabrator is working with partners to build, operate and provide technical support for new waste-to-energy plants overseas – in the United Kingdom, Poland and China – and continues to move forward with developing waste-to-energy projects in the United States and Canada.



### **Schools Share Sustainability Stories**

Arizona State University and the University of Notre Dame are avid advocates of Waste Management’s Think Green® Campus Model. The schools’ enthusiasm for sustainability was evident in 2013 when they participated in a Waste Management-sponsored webinar for educators. The schools’ representatives discussed how they are using sustainability to build their brands and compete for students and resources.

ASU has developed a zero-waste road map for its full campus and made substantial investment in environmental projects, including energy conservation, waste diversion, recycling and solar energy. At Notre Dame, sustainable practices are reducing emissions by more than a third, while initiatives including single-stream recycling are diverting more than 40 percent of materials from landfill disposal.



## Recycle Often. Recycle Right.<sup>SM</sup>

One of the most pressing challenges facing the recycling business is contamination from non-recyclable items such as plastic bags, liquids and food that end up in collection bins. Placing items that are not recyclable in recycling bins slows down the recycling process and increases the cost of recycling for everyone.

It is increasingly important, especially in light of China's Operation Green Fence, to provide an end product for commodity markets that is high in recyclable material and low in contamination. Waste Management's Recycle Often. Recycle Right.<sup>SM</sup> campaign, launched in 2013, aims to educate customers on proper recycling techniques through fun, creative experiences for communities across North America.

### Recycling

For two consecutive years our recycling operations have faced low commodity prices and higher operating expenses. In 2013, customer and regulatory requirements, notably China's Operation Green Fence, required the recycling industry to improve the quality of the commodities we produce, thereby increasing our costs to reduce material contamination in our recycling operations. In addition, recycling commodity prices were down in 2013 from 2012, contributing to earnings shortfalls in our recycling business.

We are taking several steps to increase earnings from recycling, reduce the effects of demand volatility, and earn an acceptable return on our recycling business investment. These efforts include reworking recycling contracts so that we capture our operating costs and then share the remaining revenue with our

customers, as well as gain flexibility to adjust process charges when unrecyclable material in inbound recycling streams from customers affect our costs. Over time, having more contracts that contain these protections will help our recycling business return to a more stable income producer that consistently earns a fair return on capital.

We are also working to reduce contamination in our inbound material by implementing new processes and controls at recycling facilities to remove unwanted items. And, we continue to educate customers concerning the proper materials to place in their recycling bins through our Recycle Often. Recycle Right.<sup>SM</sup> program.

### Organic waste

Waste Management works with customers and partners to develop ways to use organic waste for products such as soil amendments, organic fertilizers and renewable energy. We use proven technologies such as composting to process organics into higher-value materials.

In late 2013, the New York City Department of Environmental Protection announced a partnership with Waste Management to reduce the amount of organic waste sent to landfills. In the borough of Brooklyn, we have begun delivering preprocessed organic food waste to a local wastewater treatment plant, where it is added to wastewater sludge to increase biogas production. The city is also partnering with National Grid, an international electricity and gas company, to then convert the biogas byproduct into renewable natural gas.

### THE FUTURE OF WASTE COMES INTO FOCUS

All of us have a stake in the safe, efficient and economical handling of waste. For communities and individuals, sound waste management is essential to quality of life. For businesses, being smart about waste is a key to operating responsibly, achieving sustainability goals, and capturing the value waste offers.

Waste Management has established a solid foundation for the future built on yield, cost control, customer service, and safe and efficient operation. We will continue to apply the pricing and expense discipline that drove our strong performance in 2013, while judiciously applying technology to strengthen our operations and explore new growth avenues.

Sincerely,

David P. Steiner  
President and Chief Executive Officer



# Proxy Statement and Form 10-K





**WASTE MANAGEMENT**

1001 Fannin Street, Suite 4000

Houston, Texas 77002

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
OF WASTE MANAGEMENT, INC.**

**Date and Time:**

May 13, 2014 at 11:00 a.m., Central Time

**Place:**

The Maury Myers Conference Center

Waste Management, Inc.

1021 Main Street

Houston, Texas 77002

**Purpose:**

- To elect eight directors;
- To vote on a proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014;
- To vote on a proposal to approve our executive compensation;
- To vote on a proposal to approve our 2014 Stock Incentive Plan (the "2014 Plan");
- To vote on a stockholder proposal regarding disclosure of political contributions, if properly presented at the meeting; and
- To conduct other business that is properly raised at the meeting.

Only stockholders of record on March 17, 2014 may vote at the meeting.

Your vote is important. We urge you to promptly vote your shares by telephone, by the Internet or, if this Proxy Statement was mailed to you, by completing, signing, dating and returning your proxy card as soon as possible in the enclosed postage prepaid envelope.

LINDA J. SMITH  
*Corporate Secretary*

March 27, 2014

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 13, 2014: This Notice of Annual Meeting and Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2013 are available at <http://www.wm.com>.**

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**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**WASTE MANAGEMENT, INC.**  
**1001 Fannin Street, Suite 4000**  
**Houston, Texas 77002**

Our Board of Directors is soliciting your proxy for the 2014 Annual Meeting of Stockholders and at any postponement or adjournment of the meeting. We are furnishing proxy materials to our stockholders primarily via the Internet. On March 27, 2014, we sent an electronic notice of how to access our proxy materials, including our Annual Report, to stockholders that have previously signed up to receive their proxy materials via the Internet. On March 27, 2014, we began mailing a Notice of Internet Availability of Proxy Materials to those stockholders that previously have not signed up for electronic delivery. The Notice contains instructions on how stockholders can access our proxy materials on the website referred to in the Notice or request that a printed set of the proxy materials be sent to them. Internet distribution of our proxy materials is designed to expedite receipt by stockholders, lower the costs of the annual meeting, and conserve natural resources.

|                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Record Date</b>                                | March 17, 2014.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Quorum</b>                                     | A majority of shares outstanding on the record date must be present in person or by proxy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Shares Outstanding</b>                         | There were 465,192,040 shares of Common Stock outstanding and entitled to vote as of March 17, 2014.                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Voting by Proxy</b>                            | Internet, phone, or mail.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Voting at the Meeting</b>                      | Stockholders can vote in person during the meeting. Stockholders of record will be on a list held by the inspector of elections. Beneficial holders must obtain a proxy from their brokerage firm, bank, or other stockholder of record and present it to the inspector of elections with their ballot. Voting in person by a stockholder will replace any previous votes submitted by proxy.                                                                                                                                                                   |
| <b>Changing Your Vote</b>                         | Stockholders of record may revoke their proxy at any time before we vote it at the meeting by submitting a later-dated proxy via the Internet, by telephone, by mail, by delivering instructions to our Corporate Secretary before the annual meeting revoking the proxy or by voting in person at the annual meeting. If you hold shares through a bank or brokerage firm, you may revoke any prior voting instructions by contacting that firm.                                                                                                               |
| <b>Votes Required to Adopt Proposals</b>          | Each share of our Common Stock outstanding on the record date is entitled to one vote on each of the eight director nominees and one vote on each other matter. To be elected, a director must receive a majority of the votes cast with respect to that director at the meeting. This means that the number of shares voted "for" a director must exceed 50% of the votes cast with respect to that director. Each of the other proposals requires the favorable vote of a majority of the shares present, either by proxy or in person, and entitled to vote. |
| <b>Effect of Abstentions and Broker Non-Votes</b> | Abstentions will have no effect on the election of directors. For each of the other proposals, abstentions will have the same effect as a vote <i>against</i> these matters because they are considered present and entitled to vote.                                                                                                                                                                                                                                                                                                                           |

If your shares are held by a broker, the broker will ask you how you want your shares to be voted. If you give the broker instructions, your shares must be voted as you direct. If you do not give instructions, one of two things can happen depending on the type of proposal. For some proposals, including the ratification of the Company's independent registered public accounting firm, the broker may vote your shares at its discretion. But for other proposals, including the election of directors, the advisory vote on executive compensation, the approval of our 2014 Plan, and the stockholder proposal, the broker cannot vote your shares at all. When that happens, it is called a "broker non-vote." Broker non-votes are counted in determining the presence of a quorum at the meeting, but they are not counted for purposes of calculating the shares present and entitled to vote on particular proposals at the meeting.

### **Voting Instructions**

You may receive more than one proxy card depending on how you hold your shares. If you hold shares through a broker, your ability to vote by phone or over the Internet depends on your broker's voting process. You should complete and return each proxy or other voting instruction request provided to you.

If you complete and submit your proxy voting instructions, the persons named as proxies will follow your instructions. If you submit your proxy but do not give voting instructions, we will vote your shares as follows:

- *FOR* our director candidates;
- *FOR* the ratification of the independent registered public accounting firm;
- *FOR* approval of our executive compensation;
- *FOR* approval of our 2014 Plan; and
- *AGAINST* the stockholder proposal regarding disclosure of political contributions.

If you give us your proxy, any other matters that may properly come before the meeting will be voted at the discretion of the proxy holders.

### **Attending in Person**

Only stockholders, their proxy holders and our invited guests may attend the meeting. If you plan to attend, please bring identification and, if you hold shares in street name, bring your bank or broker statement showing your beneficial ownership of Waste Management stock in order to be admitted to the meeting. If you are planning to attend our annual meeting and require directions to the meeting, please contact our Corporate Secretary at 713-512-6200.

The only items that will be discussed at this year's annual meeting will be the items set out in the Notice. There will be no presentations.

### **Stockholder Proposals for the 2015 Annual Meeting**

Eligible stockholders who want to have proposals considered for inclusion in the Proxy Statement for our 2015 Annual Meeting should notify our Corporate Secretary at Waste Management, Inc., 1001 Fannin Street, Suite 4000, Houston, Texas 77002. The written

proposal must be received at our offices no later than November 27, 2014 and no earlier than October 28, 2014. A stockholder must have been the registered or beneficial owner of (a) at least 1% of our outstanding Common Stock or (b) shares of our Common Stock with a market value of \$2,000 for at least one year before submitting the proposal. Also, the stockholder must continue to own the stock through the date of the 2015 Annual Meeting.

#### **Expenses of Solicitation**

We pay the cost of preparing, assembling and mailing this proxy-soliciting material. In addition to the use of the mail, proxies may be solicited personally, by Internet or telephone, or by Waste Management officers and employees without additional compensation. We pay all costs of solicitation, including certain expenses of brokers and nominees who mail proxy materials to their customers or principals. Also, Innisfree M&A Incorporated has been hired to help in the solicitation of proxies for the 2014 Annual Meeting for a fee of approximately \$15,000 plus associated costs and expenses.

#### **Annual Report**

A copy of our Annual Report on Form 10-K for the year ended December 31, 2013, which includes our financial statements for fiscal year 2013, is included with this Proxy Statement. The Annual Report on Form 10-K is not incorporated by reference into this Proxy Statement or deemed to be a part of the materials for the solicitation of proxies.

#### **Householding Information**

We have adopted a procedure approved by the SEC called “householding.” Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Annual Report and Proxy Statement unless we are notified that one or more of these individuals wishes to receive separate copies. This procedure helps reduce our printing costs and postage fees.

If you wish to receive a separate copy of this Proxy Statement and the Annual Report, please contact: Waste Management, Inc., Corporate Secretary, 1001 Fannin Street, Suite 4000, Houston, Texas 77002, telephone 713-512-6200.

If you do not wish to participate in householding in the future, and prefer to receive separate copies of the proxy materials, please contact: Broadridge Financial Solutions, Attention Householding Department, 51 Mercedes Way, Edgewood, NY 11717, telephone 1-800-542-1061. If you are currently receiving multiple copies of proxy materials and wish to receive only one copy for your household, please contact Broadridge.

## **BOARD OF DIRECTORS**

---

Our Board of Directors currently has eight members. Each member of our Board is elected annually. Mr. Reum is the Non-Executive Chairman of the Board and presides over all meetings of the Board, including executive sessions that only non-employee directors attend.

Stockholders and interested parties wishing to communicate with the Board or the non-employee directors should address their communications to Mr. W. Robert Reum, Non-Executive Chairman of the Board, c/o Waste Management, Inc., P.O. Box 53569, Houston, Texas 77052-3569.

### **Leadership Structure**

We separated the roles of Chairman of the Board and Chief Executive Officer at our Company in 2004. We believe that having a Non-Executive Chairman of the Board is in the best interests of the Company and stockholders. Over the past several years, the demands made on boards of directors have been increasing. This is in large part due to increased regulation under federal securities laws, national stock exchange rules and other federal and state regulatory changes. More recently, on-going market challenges and economic conditions have increased the demands made on boards of directors. The Non-Executive Chairman's responsibilities include leading full Board meetings and executive sessions, as well as ensuring best practices and managing the Board function. The Board named Mr. Reum Chairman of the Board effective January 1, 2012, due to his tenure with and experience and understanding of the Company, as well as his experience on public company boards of directors.

The separation of the positions allows Mr. Reum to focus on management of Board matters and allows our Chief Executive Officer to focus his attention on managing our business. Additionally, we believe the separation of those roles ensures the independence of the Board in its oversight role of critiquing and assessing the Chief Executive Officer and management generally.

### **Role in Risk Oversight**

Our executive officers have the primary responsibility for risk management within our Company. Our Board of Directors oversees risk management to ensure that the processes designed and implemented by our executives are adapted to and integrated with the Company's strategy and are functioning as directed. The primary means by which the Board oversees our risk management structures and policies is through its regular communications with management and our enterprise risk management process. The Company believes that its leadership structure is conducive to comprehensive risk management practices and that the Board's involvement is appropriate to ensure effective oversight.

The Company initiated an enterprise risk management, or ERM, process several years ago, which is coordinated by an ERM Committee consisting of our Chief Financial Officer, Chief Operating Officer, General Counsel and Vice President – Internal Audit. This process initially involved the identification of the Company's programs and processes related to risk management and the individuals responsible for them. Included was a risk assessment survey completed by senior personnel requesting information regarding perceived risks to the Company, with follow-up interviews with members of senior management to review any gaps between their and their direct reports' responses. The information gathered was tailored to coordinate with the Company's strategic planning process such that the risks could be categorized in a manner that identified the specific Company strategies that may be jeopardized and plans could be developed to address the risks to those strategies. The Company then conducted an open-ended survey aligned with the objectives of the Company's strategic goals with several individuals with broad risk management and/or risk oversight responsibilities. Included in the survey were the identification of the top concerns, assessment of their risk impact and probability, and identification of the responsible risk owner. Finally, a condensed survey of top risks was completed by approximately 200 senior personnel to validate the risks and the risk rankings.

The enterprise risk management program and process continue to evolve with enhancements made annually. Board members are polled to collect their thoughts on significant risks facing the Company and how the reporting format should be revised to improve management's communication of enterprise risks to the Board.

An open-ended survey is also sent to about 100 senior personnel across the Company requesting their input relating to risks, including assessment of likelihood and severity, and known controls and metrics to monitor the risks. In addition, external stakeholders are interviewed to gather their views on risks that they perceive could have a significant impact on the Company or the industry. Finally, responsible risk owners are asked to perform in-depth analyses of their assigned significant risks every three years to update their previous assessment and to assess whether appropriate mitigating and/or monitoring activities are in place. The ERM Committee reviews the assessment of risks made by the responsible risk owners and makes changes as it deems appropriate. The ERM Committee also determines the Company's most significant risks that should be considered further by the Board.

The Board of Directors and its committees meet in person approximately six times a year, including one meeting that is dedicated specifically to strategic planning, and regular updates are given to the Board of Directors on all Company risks. At each of these meetings, our President and Chief Executive Officer; Chief Financial Officer; and General Counsel are asked to report to the Board and, when appropriate, specific committees. Additionally, other members of management and employees are requested to attend meetings and present information, including those responsible for our Internal Audit, Environmental Audit, Business Ethics and Compliance, Human Resources, Government Affairs, Information Technology, Risk Management, Safety and Accounting functions.

One of the purposes of these presentations is to provide direct communication between members of the Board and members of management; the presentations provide members of the Board with the information necessary to understand the risk profile of the Company, including information regarding the specific risk environment, exposures affecting the Company's operations and the Company's plans to address such risks. In addition to information regarding general updates to the Company's operational and financial condition, management reports to the Board on a number of specific issues meant to inform the Board about the Company's outlook and forecasts, and any impediments to meeting those or its pre-defined strategies generally. These direct communications between management and the Board of Directors allow the Board to assess management's evaluation and management of the risks of the Company.

Management is encouraged to communicate with the Board of Directors with respect to extraordinary risk issues or developments that may require more immediate attention between regularly scheduled Board meetings. Mr. Reum, as Non-Executive Chairman, facilitates communications with the Board of Directors as a whole and is integral in initiating the frank, candid discussions among the independent Board members necessary to ensure management is adequately evaluating and managing the Company's risks. These intra-Board communications are essential in its oversight function. Additionally, all members of the Board are invited to attend all committee meetings, regardless of whether the individual sits on the specific committee, and committee chairs report to the full Board. These practices ensure that all issues affecting the Company are considered in relation to each other and by doing so, risks that affect one aspect of our Company can be taken into consideration when considering other risks.

In addition, the Audit Committee is responsible for ensuring that an effective risk assessment process is in place, and quarterly reports are made to the Audit Committee on all financial and compliance risks in accordance with New York Stock Exchange requirements.

### **Independence of Board Members**

The Board of Directors has determined that each of the following seven non-employee director candidates is independent in accordance with the New York Stock Exchange listing standards:

Bradbury H. Anderson  
Frank M. Clark, Jr.  
Patrick W. Gross  
Victoria M. Holt  
John C. Pope  
W. Robert Reum  
Thomas H. Weidemeyer

Mr. Steiner is an employee of the Company and, as such, is not considered an "independent" director.



To assist the Board in determining independence, the Board of Directors adopted categorical standards of director independence, which meet or exceed the requirements of the New York Stock Exchange. These standards specify certain relationships that are prohibited in order for the non-employee director to be deemed independent. In addition to these categorical standards, our Board makes a subjective determination of independence considering relevant facts and circumstances. The Board reviewed all commercial and non-profit affiliations of each non-employee director and the dollar amount of all transactions between the Company and each entity with which a non-employee director is affiliated to determine independence. These transactions included the Company, through its subsidiaries, providing waste management services in the ordinary course of business and the Company's subsidiaries purchasing goods and services in the ordinary course of business. The categorical standards our Board uses in determining independence are included in our Corporate Governance Guidelines, which can be found on our website. The Board has determined that each non-employee director candidate meets these categorical standards and that there are no other relationships that would affect independence.

### **Meetings and Board Committees**

Last year the Board held eight meetings and each committee of the Board met independently as set forth below. Each director attended at least 75% of the meetings of the Board and the committees on which he or she served. In addition, all directors attended the 2013 Annual Meeting of Stockholders. Although we do not have a formal policy regarding director attendance at annual meetings, it has been longstanding practice that all directors attend unless there are unavoidable schedule conflicts or unforeseen circumstances.

The Board appoints committees to help carry out its duties. In particular, Board committees work on key issues in greater detail than would be possible at full Board meetings. Each committee reviews the results of its meetings with the full Board, and all members of the Board are invited to attend all committee meetings. The Board has three separate standing committees: the Audit Committee; the Management Development and Compensation Committee (the "MD&C Committee"); and the Nominating and Governance Committee. Additionally, the Board has the power to appoint additional committees, as it deems necessary. In 2006, the Board appointed a Special Committee, as described below.

#### ***The Audit Committee***

Mr. Gross has been the Chairman of our Audit Committee since May 2010. The other members of our Audit Committee are Messrs. Clark, Reum and Weidemeyer. Each member of our Audit Committee satisfies the additional New York Stock Exchange independence standards for audit committees set forth in Section 10A of the Securities Exchange Act of 1934, as amended. Our Audit Committee held eight meetings in 2013.

SEC rules require that we have at least one financial expert on our Audit Committee. Our Board of Directors has determined that Mr. Gross is an Audit Committee financial expert for purposes of the SEC's rules based on a thorough review of his education and financial and public company experience.

Mr. Gross was a founder of American Management Systems where he was principal executive officer for over 30 years. He has served as Chairman of The Lovell Group, a private investment and advisory firm, since 2001. Mr. Gross holds an MBA from the Stanford University Graduate School of Business, a master's degree in engineering science from the University of Michigan and a bachelor's degree in engineering science from Rensselaer Polytechnic Institute.

The Audit Committee's duties are set forth in a written charter that was approved by the Board of Directors. A copy of the charter can be found on our website. The Audit Committee generally is responsible for overseeing all matters relating to our financial statements and reporting, internal audit function and independent auditors. As part of its function, the Audit Committee reports the results of all of its reviews to the full Board. In fulfilling its duties, the Audit Committee, has the following responsibilities:

#### ***Administrative Responsibilities***

- Report to the Board, at least annually, all public company audit committee memberships by members of the Audit Committee;



- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board; and
- Adopt an orientation program for new Audit Committee members.

#### *Independent Auditor*

- Engage an independent auditor, determine the auditor's compensation and replace the auditor if necessary;
- Review the independence of the independent auditor and establish our policies for hiring current or former employees of the independent auditor;
- Evaluate the lead partner of our independent audit team and review a report, at least annually, describing the independent auditor's internal control procedures; and
- Pre-approve all services, including non-audit engagements, provided by the independent auditor.

#### *Internal Audit*

- Review the plans, staffing, reports and activities of the internal auditors; and
- Review and establish procedures for receiving, retaining and handling complaints, including anonymous complaints by our employees, regarding accounting, internal controls and auditing matters.

#### *Financial Statements*

- Review financial statements and Forms 10-K and 10-Q with management and the independent auditor;
- Review all earnings press releases and discuss with management the type of earnings guidance that we provide to analysts and rating agencies;
- Discuss with the independent auditor any material changes to our accounting principles and matters required to be communicated by Public Company Accounting Oversight Board (United States) Audit Standard AU Section 380 *Communication with Audit Committees*;
- Review our financial reporting, accounting and auditing practices with management, the independent auditor and our internal auditors;
- Review management's and the independent auditor's assessment of the adequacy and effectiveness of internal controls over financial reporting; and
- Review executive officer certifications related to our reports and filings.

### **Audit Committee Report**

The role of the Audit Committee is, among other things, to oversee the Company's financial reporting process on behalf of the Board of Directors, to recommend to the Board whether the Company's financial statements should be included in the Company's Annual Report on Form 10-K and to select the independent auditor for ratification by stockholders. Company management is responsible for the Company's financial statements as well as for its financial reporting process, accounting principles and internal controls. The Company's independent auditors are responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with accounting principles generally accepted in the United States.

The Audit Committee has reviewed and discussed the Company's audited financial statements as of and for the year ended December 31, 2013 with management and the independent registered public accounting firm, and

has taken the following steps in making its recommendation that the Company's financial statements be included in its annual report:

- First, the Audit Committee discussed with Ernst & Young, the Company's independent registered public accounting firm for fiscal year 2013, those matters required to be discussed by Public Company Accounting Oversight Board (United States) Audit Standard AU Section 380 *Communication with Audit Committees*, including information regarding the scope and results of the audit. These communications and discussions are intended to assist the Audit Committee in overseeing the financial reporting and disclosure process.
- Second, the Audit Committee discussed with Ernst & Young its independence and received from Ernst & Young a letter concerning independence as required under applicable independence standards for auditors of public companies. This discussion and disclosure helped the Audit Committee in evaluating such independence. The Audit Committee also considered whether the provision of other non-audit services to the Company is compatible with the auditor's independence.
- Third, the Audit Committee met periodically with members of management, the internal auditors and Ernst & Young to review and discuss internal controls over financial reporting. Further, the Audit Committee reviewed and discussed management's report on internal control over financial reporting as of December 31, 2013, as well as Ernst & Young's report regarding the effectiveness of internal control over financial reporting.
- Finally, the Audit Committee reviewed and discussed, with the Company's management and Ernst & Young, the Company's audited consolidated balance sheet as of December 31, 2013, and consolidated statements of operations, comprehensive income, cash flows and equity for the fiscal year ended December 31, 2013, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of the disclosure.

The Committee has also discussed with the Company's internal auditors and independent registered public accounting firm the overall scope and plans of their respective audits. The Committee meets periodically with both the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations and their evaluations of the Company's internal controls over financial reporting.

The members of the Audit Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting. In the performance of their oversight function, the members of the Audit Committee necessarily relied upon the information, opinions, reports and statements presented to them by Company management and by the independent registered public accounting firm.

Based on the reviews and discussions explained above (and without other independent verification), the Audit Committee recommended to the Board (and the Board approved) that the Company's financial statements be included in its annual report for its fiscal year ended December 31, 2013. The Committee has also approved the selection of Ernst & Young as the Company's independent registered public accounting firm for fiscal year 2014.

The Audit Committee of the Board of Directors

Patrick W. Gross, *Chairman*  
Frank M. Clark, Jr.  
W. Robert Reum  
Thomas H. Weidemeyer

### ***The Management Development and Compensation Committee***

Mr. Clark has served as the Chairman of our MD&C Committee since May 2011. The other members of the Committee are Ms. Holt and Messrs. Anderson, Pope and Reum. Each member of our MD&C Committee is independent in accordance with the rules and regulations of the New York Stock Exchange. The MD&C Committee met five times in 2013.

Our MD&C Committee is responsible for overseeing all of our executive and senior management compensation, as well as developing the Company's compensation philosophy generally. The MD&C Committee's written charter, which was approved by the Board of Directors, can be found on our website. In fulfilling its duties, the MD&C Committee has the following responsibilities:

- Review and establish policies governing the compensation and benefits of all of our executives;
- Approve the compensation of our senior management and set the bonus plan goals for those individuals;
- Conduct an annual evaluation of our Chief Executive Officer by all independent directors to set his compensation;
- Oversee the administration of all of our equity-based incentive plans;
- Review the results of the stockholder advisory vote on executive compensation and consider any implications of such voting results on the Company's compensation programs;
- Recommend to the full Board new Company compensation and benefit plans or changes to our existing plans;
- Evaluate and recommend to the Board the compensation paid to our non-employee directors;
- Determine the independence of the MD&C Committee's compensation consultant annually; and
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board.

In overseeing compensation matters, the MD&C Committee may delegate authority for day-to-day administration and interpretation of the Company's plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to Company employees. However, the MD&C Committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the executive officers. For additional information on the MD&C Committee, see the Compensation Discussion and Analysis beginning on page 22.

### **Compensation Committee Report**

The MD&C Committee has reviewed and discussed the Compensation Discussion and Analysis, beginning on page 22, with management. Based on the review and discussions, the MD&C Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement.

The Management Development and Compensation  
Committee of the Board of Directors

Frank M. Clark, Jr., *Chairman*  
Bradbury H. Anderson  
Victoria M. Holt  
John C. Pope  
W. Robert Reum

## **Compensation Committee Interlocks and Insider Participation**

During 2013, Ms. Cafferty, who passed away in April 2013, Ms. Holt, and Messrs. Anderson, Clark, Pope and Reum served on the MD&C Committee. No member of the MD&C Committee was an officer or employee of the Company during 2013; no member of the MD&C Committee is a former officer of the Company; and during 2013, none of our executive officers served as a member of a board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board of Directors or MD&C Committee.

### ***The Nominating and Governance Committee***

Mr. Weidemeyer has served as the Chairman of our Nominating and Governance Committee since May 2011. The other members of the Committee include Ms. Holt and Messrs. Anderson, Gross, Pope and Reum. Each member of our Nominating and Governance Committee is independent in accordance with the rules and regulations of the New York Stock Exchange. In 2013, the Nominating and Governance Committee met five times.

The Nominating and Governance Committee has a written charter that has been approved by the Board of Directors and can be found on our website. It is the duty of the Nominating and Governance Committee to oversee matters regarding corporate governance. In fulfilling its duties, the Nominating and Governance Committee has the following responsibilities:

- Review and recommend the composition of our Board, including the nature and duties of each of our committees, in accordance with our Corporate Governance Guidelines;
- Evaluate the charters of each of the committees and recommend directors to serve as committee chairs;
- Review individual director's performance in consultation with the Chairman of the Board and review the overall effectiveness of the Board;
- Recommend retirement policies for the Board, the terms for directors and the proper ratio of employee directors to outside directors;
- Perform an annual review of its performance relative to its charter and report the results of its evaluation to the full Board;
- Review stockholder proposals received for inclusion in the Company's proxy statement and recommend action to be taken with regard to the proposals to the Board; and
- Identify and recommend to the Board candidates to fill director vacancies.

Potential director candidates are identified through various methods; the Nominating and Governance Committee welcomes suggestions from directors, members of management, and stockholders. From time to time, the Nominating and Governance Committee uses outside consultants to assist it with identifying potential director candidates.

For all potential candidates, the Nominating and Governance Committee considers all factors it deems relevant, such as a candidate's personal and professional integrity and sound judgment, business and professional skills and experience, independence, possible conflicts of interest, diversity, and the potential for effectiveness, in conjunction with the other directors, to serve the long-term interests of the stockholders. While there is no formal policy with regard to consideration of diversity in identifying director nominees, the Committee considers diversity in business experience, professional expertise, gender and ethnic background, along with various other factors when evaluating director nominees. The Committee uses a matrix of functional and industry experiences to develop criteria to select candidates. Before being nominated by the Nominating and Governance Committee, director candidates are interviewed by the Chief Executive Officer and a minimum of two members of the Nominating and Governance Committee, including the Non-Executive Chairman of the Board. Additional interviews may include other members of the Board, representatives from senior levels of management and an outside consultant.

The Nominating and Governance Committee will consider all potential nominees on their merits without regard to the source of recommendation. The Nominating and Governance Committee believes that the

nominating process will and should continue to involve significant subjective judgments. To suggest a nominee, you should submit your candidate's name, together with biographical information and his or her written consent to nomination to the Chairman of the Nominating and Governance Committee, Waste Management, Inc., 1001 Fannin Street, Suite 4000, Houston, Texas 77002, between October 28, 2014 and November 27, 2014.

### **Related Party Transactions**

The Board of Directors has adopted a written Related Party Transactions Policy for the review and approval or ratification of related party transactions. Our policy generally defines related party transactions as current or proposed transactions in excess of \$120,000 in which (i) the Company is a participant and (ii) any director, executive officer or immediate family member of any director or executive officer has a direct or indirect material interest. In addition, the policy sets forth certain transactions that will not be considered related party transactions, including (i) executive officer compensation and benefit arrangements; (ii) director compensation arrangements; (iii) business travel and expenses, advances and reimbursements in the ordinary course of business; (iv) indemnification payments and advancement of expenses, and payments under directors' and officers' indemnification insurance policies; (v) any transaction between the Company and any entity in which a related party has a relationship solely as a director, a less than 5% equity holder, or an employee (other than an executive officer); and (vi) purchases of Company debt securities, provided that the related party has a passive ownership of no more than 2% of the principal amount of any outstanding series. The Nominating and Governance Committee is responsible for overseeing the policy.

All executive officers and directors are required to notify the General Counsel or the Corporate Secretary as soon as practicable of any proposed transaction that they or their family members are considering entering into that involves the Company. The General Counsel will determine whether potential transactions or relationships constitute related party transactions that must be referred to the Nominating and Governance Committee.

The Nominating and Governance Committee will review a detailed description of the transaction, including:

- the terms of the transaction;
- the business purpose of the transaction;
- the benefits to the Company and to the relevant related party; and
- whether the transaction would require a waiver of the Company's Code of Conduct.

In determining whether to approve a related party transaction, the Nominating and Governance Committee will consider, among other things, whether:

- the terms of the related party transaction are fair to the Company and such terms would be reasonable in an arms-length transaction;
- there are business reasons for the Company to enter into the related party transaction;
- the related party transaction would impair the independence of any non-employee director;
- the related party transaction would present an improper conflict of interest for any director or executive officer of the Company; and
- the related party transaction is material to the Company or the individual.

Any member of the Nominating and Governance Committee who has an interest in a transaction presented for consideration will abstain from voting on the related party transaction.

The Nominating and Governance Committee's consideration of related party transactions and its determination of whether to approve such a transaction are reflected in the minutes of the Nominating and Governance Committee's meetings. The Company is not aware of any transactions that are required to be disclosed.

### ***Special Committee***

The Board of Directors appointed a Special Committee in November 2006 to make determinations regarding the Company's obligation to provide indemnification when and as may be necessary. The Special Committee consists of Mr. Gross and Mr. Weidemeyer. The Special Committee held no meetings in 2013.

### **Board of Directors Governing Documents**

Stockholders may obtain copies of our Corporate Governance Guidelines, the charters of the Audit Committee, the MD&C Committee, and the Nominating and Governance Committee, and our Code of Conduct free of charge by contacting the Corporate Secretary, c/o Waste Management, Inc., 1001 Fannin Street, Suite 4000, Houston, Texas 77002 or by accessing the "Corporate Governance" section of the "Investor Relations" page on our website at <http://www.wm.com>.

### **Non-Employee Director Compensation**

Our non-employee director compensation program consists of equity awards and cash consideration. Prior to January 1, 2014, compensation for directors was recommended annually by the Nominating and Governance Committee, with the assistance of an independent third-party consultant, and set by action of the Board of Directors. As of January 1, 2014, non-employee director compensation is recommended by the MD&C Committee. The Board's goal in designing directors' compensation is to provide a competitive package that will enable the Company to attract and retain highly skilled individuals with relevant experience. The compensation also is designed to reward the time and talent required to serve on the board of a company of our size and complexity. The Board seeks to provide sufficient flexibility in the form of compensation delivered to meet the needs of different individuals while ensuring that a substantial portion of directors' compensation is linked to the long-term success of the Company.

#### ***Equity Compensation***

Non-employee directors receive an annual grant of shares of Common Stock under the Company's 2009 Stock Incentive Plan. The shares are fully vested at the time of grant; however, non-employee directors are subject to ownership guidelines that establish a minimum ownership standard and require that all net shares received in connection with a stock award, after selling shares to pay all applicable taxes, be held during their tenure as a director and for one year following termination of Board service. The grant of shares is generally made in two equal installments, and the number of shares issued is based on the market value of our Common Stock on the dates of grant, which historically have been January 15 and July 15 of each year. Due to tax planning considerations, in December 2012, the Nominating and Governance Committee recommended, and the Board approved, accelerated issuance of the non-employee directors' annual stock award for 2013. As a result, on December 15, 2012, each non-employee director (with the exception of Ms. Holt, who was not yet a director) received a stock award valued at \$130,000 on account of 2013 Board service. At the same time, Mr. Reum received an additional stock award valued at \$100,000 for his service as Non-Executive Chairman of the Board in 2013. As a result, no equity compensation was delivered to the non-employee directors in 2013, with the exception of Ms. Holt, who received a stock award in the prorated amount of \$54,174 when she joined the Board on January 28, 2013 and a stock award of \$65,000 on July 15, 2013.

#### ***Cash Compensation***

All non-employee directors receive an annual cash retainer for Board service and additional cash retainers for serving as a committee chair. Directors do not receive meeting fees in addition to the retainers. The cash retainers are generally payable in two equal installments in January and July of each year. However, due to tax planning considerations, in December 2012, the Nominating and Governance Committee recommended, and the Board approved, accelerated payment of the annual cash retainers for 2013 Board service in December 2012. As a result, no cash compensation was delivered to the non-employee directors in 2013, with the exception of Ms. Holt, who received a prorated amount of \$43,750 when she joined the Board in January 2013, and \$52,500 in

July 2013. The payments of the retainers are not subject to refund. The table below sets forth the cash retainers for 2013 that were paid in 2012:

|                               |                                                        |
|-------------------------------|--------------------------------------------------------|
| <b>Annual Retainer</b>        | \$105,000                                              |
| <b>Annual Chair Retainers</b> | \$100,000 for Non-Executive Chairman                   |
|                               | \$25,000 for Audit Committee Chair                     |
|                               | \$20,000 for MD&C Committee Chair                      |
|                               | \$15,000 for Nominating and Governance Committee Chair |
| <b>Other Annual Retainers</b> | \$10,000 for Special Committee                         |

The table below shows the aggregate cash paid, and stock awards issued, to the non-employee directors in 2013 in accordance with the descriptions set forth above:

| <u>Name</u>                | <u>Fees Earned<br/>or Paid in<br/>Cash \$(1)</u> | <u>Stock<br/>Awards<br/>\$(1)(2)</u> | <u>Total (\$)</u> |
|----------------------------|--------------------------------------------------|--------------------------------------|-------------------|
| Bradbury H. Anderson ..... | 0                                                | 0                                    | 0                 |
| Frank M. Clark, Jr. ....   | 0                                                | 0                                    | 0                 |
| Patrick W. Gross .....     | 0                                                | 0                                    | 0                 |
| Victoria M. Holt .....     | 96,250                                           | 119,174                              | 215,424           |
| John C. Pope .....         | 0                                                | 0                                    | 0                 |
| W. Robert Reum .....       | 0                                                | 0                                    | 0                 |
| Thomas H. Weidemeyer ..... | 0                                                | 0                                    | 0                 |

- (1) As discussed above, payment of cash retainers and issuance of stock awards on account of 2013 Board service were accelerated and paid in December 2012, with the exception of the cash retainer and stock awards issued to Ms. Holt, who joined the Board in January 2013.
- (2) Amounts in this column represent the grant date fair value of stock awards granted in 2013, in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. The grant date fair value of the awards is equal to the number of shares issued multiplied by the average of the high and low market price of our Common Stock on each date of grant; there are no assumptions used in the valuation of shares.



## ELECTION OF DIRECTORS

### (ITEM 1 ON THE PROXY CARD)

The first proposal on the agenda is the election of eight directors to serve until the 2015 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified. The Board has nominated the eight director candidates named below, and recommends that you vote **FOR** their election. If any nominee is unable or unwilling to serve as a director, which we do not anticipate, the Board, by resolution, may reduce the number of directors that constitute the Board or may choose a substitute. To be elected, a director must receive a majority of the votes cast with respect to that director at the meeting. Our By-laws provide that if the number of shares voted “for” any director nominee does not exceed 50% of the votes cast with respect to that director, he will tender his resignation to the Board of Directors. The Nominating and Governance Committee will then make a recommendation to the Board on whether to accept or reject the resignation, or whether other action should be taken.

The table below shows all of our director nominees; their ages, terms of office on our Board; experience within the past five years; and their qualifications we considered when inviting them to join our Board as well as nominating them for re-election. We believe that, as a general matter, our directors’ past five years of experience gives an indication of the wealth of knowledge and experience these individuals have and that we considered; however, we have also indicated the specific skills and areas of expertise we believe makes each of these individuals a valuable member of our Board.

### Director Nominees

| <u>Director</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <u>Qualifications</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| <b>Bradbury H. Anderson, 64</b><br><b>Director since 2011</b><br>Vice Chairman and Chief Executive Officer — Best Buy Co., Inc. (multinational retailer of technology and entertainment products and services) from 2002 to 2009; President and Chief Operating Officer of Best Buy from 1991 to 2002.<br>Director of General Mills, Inc. since 2007.<br>Director of Best Buy Co., Inc. since June 2013.<br>Director of Carlson Companies, a private company, since July 2009.<br>Director of LightHaus Logic, Inc., a private corporation, since April 2012.      |                       |
| Mr. Anderson served in the positions of chief executive officer and chief operating officer of a large public retail company for several years, during a customer segmentation transformation, which provided him with extensive knowledge of management and operations of large public companies, including experience implementing customer focused strategies. He also has over 17 years of experience as a member of a public company board of directors.                                                                                                      |                       |
| <b>Frank M. Clark, Jr., 68</b><br><b>Director since 2002</b><br>Chairman and Chief Executive Officer — ComEd (energy services company and subsidiary of Exelon Corporation) from November 2005 to February 2012; President — ComEd from 2001 to November 2005.<br>Executive Vice President and Chief of Staff — Exelon Corporation (public utility holding company) from 2004 to 2005; Senior Vice President — Exelon Corporation from 2001 to 2004.<br>Director of BMO Financial Corp., a private corporation, since 2005.<br>Director of Aetna, Inc. since 2006. |                       |
| Mr. Clark served in executive positions at a large public utility company for over a decade, providing him with extensive experience and knowledge of large company management, operations and business critical functions. He also brings over 10 years of experience as a member of a public company board of directors.                                                                                                                                                                                                                                         |                       |



**Director****Qualifications****Patrick W. Gross, 69****Director since 2006**

Chairman — The Lovell Group (private investment and advisory firm) since October 2001.

Director of Capital One Financial Corporation since 1995.

Director of Liquidity Services, Inc. since 2001.

Director of Career Education Corporation since 2005.

Director of Rosetta Stone, Inc. since 2009.

Director of Taleo Corporation from 2006 to 2012.

Mr. Gross was a founder of American Management Systems, Inc., a global business and information technology firm, where he was principal executive officer for over 30 years. As a result, he has extensive experience in applying information technology and advanced data analytics in global companies. His background, education and board service also provide him with expertise in finance and accounting. He also brings over 30 years of experience as a director on public company boards of directors.

**Victoria M. Holt, 56****Director since 2013**

Chief Executive Officer — Proto Labs, Inc. (online and technology-enabled quick-turn manufacturer) since February 2014.

President and Chief Executive Officer — Spartech Corporation (a leading producer of plastic sheet, compounds and packaging products) from September 2010 to March 2013.

Senior Vice President, Glass and Fiber Glass, PPG Industries, Inc. (a leading coatings and specialty products company) from May 2005 to September 2010.

Director of Watlow Electric Manufacturing Company, a private corporation, since December 2012.

Director of Spartech Corporation from 2005 to March 2013.

Ms. Holt has served in executive positions at public companies for many years, providing her with extensive knowledge about operations, management, logistical requirements and measuring financial performance of large public companies. Her background and education provide her with expertise in applying environmental solutions critical to our Company's strategy.

**John C. Pope, 64****Non-Executive Chairman of the Board from 2004 through 2011;****Director since 1997**

Chairman of the Board — PFI Group (private investment firm) since July 1994.

Director of R.R. Donnelley & Sons Company, or predecessor companies, since 1996.

Director of Kraft Foods Group, Inc., or predecessor companies, since 2001.

Director of Con-way, Inc., or predecessor companies, since 2003.

Director of Dollar Thrifty Automotive Group, Inc. from 1997 to 2012.

Director of Navistar International Corporation from 2012 to 2013.

Prior to his current service on the boards of multiple major corporations, Mr. Pope served in executive operational and financial positions at large airline companies for almost 20 years, providing him with extensive experience and knowledge of management of large public companies with large-scale logistical challenges, high fixed-cost structure and significant capital requirements. His background, education and board service also provide him with expertise in finance and accounting. Mr. Pope has served as a director on many public company boards of directors during the last 30 years.

**Director**

**Qualifications**

**W. Robert Reum, 71**  
**Non-Executive Chairman of the Board since January 2012;**  
**Director since 2003**

Chairman, President and CEO — Amsted Industries Incorporated (diversified manufacturer for the railroad, vehicular and construction industries) since March 2001.

Mr. Reum has served as the chief executive of a private diversified manufacturing company for 13 years. He also served as Chairman, President and Chief Executive Officer of The Interlake Corporation, a public diversified metal products company, from 1991 to 1999. As a result, he has extensive management experience within a wide range of business functions. Mr. Reum also brings over 20 years of experience as a director on public company boards of directors.

**David P. Steiner, 53**  
**Chief Executive Officer and Director since 2004;**  
**President since June 2010**

Executive Vice President and Chief Financial Officer from April 2003 to March 2004.

Director of TE Connectivity Ltd. (formerly Tyco Electronics Corporation) since 2007.

Director of FedEx Corporation since 2009.

Mr. Steiner is our President and Chief Executive Officer and, in that capacity, brings extensive knowledge of the details of our Company and its employees, as well as the front-line experiences of running our Company, to his service as a member of our Board. Mr. Steiner also brings his experience as a director of other major public companies.

**Thomas H. Weidemeyer, 66**  
**Director since 2005**

Chief Operating Officer — United Parcel Service, Inc. (package delivery and supply chain services company) from 2001 to 2003; Senior Vice President — United Parcel Service, Inc. from 1994 to 2003.

President, UPS Airlines (UPS owned airline) from 1994 to 2003.

Director of NRG Energy, Inc. since 2003.

Director of The Goodyear Tire & Rubber Company since 2004.

Director of Amsted Industries Incorporated since 2007.

Mr. Weidemeyer served in executive positions at a large public company for several years. His roles encompassed significant operational management responsibility, providing him knowledge and experience in an array of functional areas critical to large public companies, including supply chain and logistics management. Mr. Weidemeyer also has over 12 years of experience as a director on public company boards of directors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE EIGHT NOMINEE DIRECTORS.**

## DIRECTOR AND OFFICER STOCK OWNERSHIP

Our Board of Directors has adopted stock ownership guidelines for our non-employee directors that require each director to hold Common Stock or share-based instruments valued at five times his annual cash retainer. Non-employee directors other than Mr. Reum currently are required to hold 17,500 shares, and Mr. Reum, as Chairman, currently is required to hold approximately 34,200 shares. Messrs. Clark, Gross, Pope and Weidemeyer have currently reached their required levels of ownership. There is no deadline set for non-employee directors to reach their ownership requirements; however, all non-employee directors must hold all net shares received in connection with a stock award, after selling shares to pay all applicable taxes, during their tenure as a director and for one year following termination of Board service.

Our executive officers, including Mr. Steiner, are also subject to stock ownership guidelines, as described in the Compensation Discussion and Analysis on page 36 of this Proxy Statement.

The Stock Ownership Table below shows the number of shares of Common Stock each director nominee and each executive officer named in the Summary Compensation Table on page 38 beneficially owned as of March 17, 2014, our record date for the annual meeting, as well as the number owned by all directors and executive officers as a group. The table also includes information about stock options currently exercisable or that will become exercisable within 60 days of our record date and phantom stock granted under various compensation and benefit plans.

These individuals, both individually and in the aggregate, own less than 1% of our outstanding shares as of the record date.

### Security Ownership of Management

| Name                                                                         | Shares of Common<br>Stock Owned(1) | Shares of Common<br>Stock Covered by<br>Exercisable Options(2) | Phantom<br>Stock(3) |
|------------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------------|---------------------|
| Bradbury H. Anderson(4) . . . . .                                            | 11,891                             | 0                                                              | 0                   |
| Frank M. Clark, Jr. . . . .                                                  | 24,845                             | 0                                                              | 0                   |
| Patrick W. Gross . . . . .                                                   | 18,036                             | 0                                                              | 0                   |
| Victoria M. Holt . . . . .                                                   | 4,527                              | 0                                                              | 0                   |
| John C. Pope(5) . . . . .                                                    | 46,503                             | 0                                                              | 0                   |
| W. Robert Reum . . . . .                                                     | 27,917                             | 0                                                              | 0                   |
| Thomas H. Weidemeyer . . . . .                                               | 20,173                             | 0                                                              | 0                   |
| David P. Steiner(6) . . . . .                                                | 648,694                            | 1,094,474                                                      | 72,858              |
| James E. Trevathan, Jr. . . . .                                              | 186,332                            | 269,934                                                        | 0                   |
| James C. Fish, Jr. . . . .                                                   | 12,400                             | 99,443                                                         | 0                   |
| Jeff M. Harris . . . . .                                                     | 48,758                             | 188,962                                                        | 0                   |
| John J. Morris, Jr. . . . .                                                  | 4,231                              | 51,259                                                         | 0                   |
| All directors and executive officers as a group<br>(21 persons)(7) . . . . . | 1,325,708                          | 2,358,073                                                      | 82,585              |

- (1) The table reports beneficial ownership in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. The amounts reported above include 11,468 stock equivalents attributed to Mr. Steiner and 3,439 stock equivalents attributed to Mr. Fish based on their holdings in the Company's Retirement Savings Plan stock fund.
- (2) The number of options includes options currently exercisable and options that will become exercisable within 60 days of our record date.
- (3) Executive officers may choose a Waste Management stock fund as an investment option under the Company's 409A Deferral Savings Plan described in the Nonqualified Deferred Compensation table on page 43. Interests in the fund are considered phantom stock because they are equal in value to shares of our

Common Stock. Phantom stock receives dividend equivalents, in the form of additional phantom stock, at the same time that holders of shares of Common Stock receive dividends. The value of the phantom stock is paid out, in cash, at a future date selected by the executive. Phantom stock is not considered as equity ownership for SEC disclosure purposes; we have included it in this table because it represents an investment risk in the performance of our Common Stock.

- (4) The number of shares owned by Mr. Anderson includes 100 shares held by his wife.
- (5) The number of shares owned by Mr. Pope includes 435 shares held in trusts for the benefit of his children.
- (6) The number of shares owned by Mr. Steiner includes 343,294 shares held by Steiner Family Holdings, LLC. Mr. Steiner is the sole manager of this company. All of the shares held by Steiner Family Holdings, LLC are pledged as security for a loan.
- (7) Included in the “All directors and executive officers as a group” are 15,215 stock equivalents attributable to the executive officers’ collective holdings in the Company’s Retirement Savings Plan stock fund.

## **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The table below shows information for persons known to us to beneficially own more than 5% of our Common Stock based on their filings with the SEC through March 17, 2014.

| <u>Name and Address</u>                                                                       | <u>Shares Beneficially Owned</u> |                   |
|-----------------------------------------------------------------------------------------------|----------------------------------|-------------------|
|                                                                                               | <u>Number</u>                    | <u>Percent(1)</u> |
| Capital World Investors . . . . .<br>333 South Hope Street<br>Los Angeles, CA 90071           | 41,007,953(2)                    | 8.8               |
| William H. Gates III . . . . .<br>One Microsoft Way<br>Redmond, WA 98052                      | 29,894,579(3)                    | 6.4               |
| Capital Research Global Investors . . . . .<br>333 South Hope Street<br>Los Angeles, CA 90071 | 29,847,220(4)                    | 6.4               |
| BlackRock, Inc. . . . .<br>40 East 52nd Street<br>New York, NY 10022                          | 24,994,272(5)                    | 5.4               |

- (1) Percentage is calculated using the number of shares of Common Stock outstanding as of March 17, 2014.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2014. Capital World Investors reports that it is deemed to be the beneficial owner of 41,007,953 shares of Common Stock as a result of acting as investment adviser to various investment companies. Capital World Investors disclaims beneficial ownership of all shares.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2013, which is the most recent Schedule 13G filed by the investor with respect to ownership of our Common Stock. Mr. Gates reports that he has sole voting and dispositive power over 11,260,907 shares of Common Stock held by Cascade Investment, L.L.C., as the sole member of such entity. Additionally, the Schedule 13G/A reports that Mr. Gates and Melinda French Gates share voting and dispositive power over 18,633,672 shares of Common Stock beneficially owned by Bill & Melinda Gates Foundation Trust.
- (4) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2014. Capital Research Global Investors reports that it is deemed to be the beneficial owner of 29,847,220 shares of Common Stock as a result of acting as investment adviser to various investment companies. Capital Research Global Investors disclaims beneficial ownership of all shares.
- (5) This information is based on a Schedule 13G/A filed with the SEC on January 31, 2014. BlackRock, Inc. reports that it has sole voting power over 20,883,250 shares of Common Stock and sole dispositive power over 24,994,272 shares of Common Stock beneficially owned.

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

The federal securities laws require our executive officers and directors to file reports of their holdings and transactions in our Common Stock with the SEC and the New York Stock Exchange. Based on a review of the forms and written representations from our executive officers and directors, we believe that all applicable requirements were complied with in 2013, except that Mr. Morris failed to timely make one report on Form 4 relating to the transfer of funds (i) out of the Company stock fund of our Retirement Savings Plan and (ii) out of the Company stock fund of our 409A Deferral Savings Plan.

## EXECUTIVE OFFICERS

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The following is a listing of our current executive officers, other than Mr. Steiner, whose personal information is included in the Director Nominees section of this Proxy Statement on page 16, their ages and business experience for the past five years.

| <u>Name</u>                 | <u>Age</u> | <u>Positions Held and Business Experience for Past Five Years</u>                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| David A. Aardsma . . . . .  | 57         | <ul style="list-style-type: none"> <li>• Senior Vice President and Chief Sales and Marketing Officer since June 2011.</li> <li>• Senior Vice President, Sales and Marketing from January 2005 to June 2011.</li> </ul>                                                                                                                                                                                                                            |
| Puneet Bhasin . . . . .     | 51         | <ul style="list-style-type: none"> <li>• Chief Information Officer and Senior Vice President, Technology, Logistics and Customer Service since August 2012.</li> <li>• Senior Vice President and Chief Information Officer from December 2009 to August 2012.</li> <li>• Senior Vice President — Global Product &amp; Technology, Monster Worldwide (provider of global online employment solutions) from April 2005 to November 2009.</li> </ul> |
| William K. Caesar . . . . . | 48         | <ul style="list-style-type: none"> <li>• President, WM Recycle America, L.L.C., a wholly-owned subsidiary of the Company, since January 2012.</li> <li>• Chief Strategy Officer from July 2010 to January 2012.</li> <li>• Principal, McKinsey &amp; Company (global management consulting firm) from July 2003 to June 2010.</li> </ul>                                                                                                          |
| Barry H. Caldwell . . . . . | 53         | <ul style="list-style-type: none"> <li>• Senior Vice President — Government Affairs and Corporate Communications since September 2002.</li> </ul>                                                                                                                                                                                                                                                                                                 |
| Don P. Carpenter . . . . .  | 53         | <ul style="list-style-type: none"> <li>• Vice President and Chief Accounting Officer since August 2012.</li> <li>• Vice President — Tax from May 2002 to August 2012.</li> </ul>                                                                                                                                                                                                                                                                  |
| James C. Fish, Jr. . . . .  | 51         | <ul style="list-style-type: none"> <li>• Executive Vice President and Chief Financial Officer since August 2012.</li> <li>• Senior Vice President, Eastern Group from June 2011 to August 2012.</li> <li>• Area Vice President, Pennsylvania and West Virginia Area from January 2009 to June 2011.</li> <li>• Market Area General Manager, Western Pennsylvania and West Virginia Market Area from February 2008 to January 2009.</li> </ul>     |
| Jeff M. Harris . . . . .    | 59         | <ul style="list-style-type: none"> <li>• Senior Vice President — Field Operations since July 2012.</li> <li>• Senior Vice President — Midwest Group from April 2006 to July 2012.</li> </ul>                                                                                                                                                                                                                                                      |
| John J. Morris, Jr. . . . . | 44         | <ul style="list-style-type: none"> <li>• Senior Vice President — Field Operations since July 2012.</li> <li>• Chief Strategy Officer from March 2012 to July 2012.</li> <li>• Area Vice President — Greater Mid-Atlantic Area from July 2011 to March 2012.</li> <li>• Area Vice President — Waste Management of New Jersey from February 2007 to July 2011.</li> </ul>                                                                           |
| Devina A. Rankin . . . . .  | 38         | <ul style="list-style-type: none"> <li>• Vice President and Treasurer since August 2012.</li> <li>• Assistant Treasurer from June 2010 to August 2012.</li> <li>• Senior Manager of Financial Reporting from July 2007 to June 2010.</li> </ul>                                                                                                                                                                                                   |
| Mark E. Schwartz . . . . .  | 56         | <ul style="list-style-type: none"> <li>• Senior Vice President — Human Resources since May 2012.</li> <li>• Vice President and Assistant General Counsel — Labor and Employment from December 2000 to May 2012.</li> </ul>                                                                                                                                                                                                                        |

| <u>Name</u>                     | <u>Age</u> | <u>Positions Held and Business Experience for Past Five Years</u>                                                                                                                                                                                                                                                |
|---------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| James E. Trevathan, Jr. . . . . | 61         | <ul style="list-style-type: none"> <li>• Executive Vice President and Chief Operating Officer since July 2012.</li> <li>• Executive Vice President — Growth, Innovation and Field Support from June 2011 to July 2012.</li> <li>• Senior Vice President — Southern Group from July 2007 to June 2011.</li> </ul> |
| Mark A. Weidman . . . . .       | 57         | <ul style="list-style-type: none"> <li>• President of Wheelabrator Technologies Inc., a wholly-owned subsidiary of the Company, since March 2006.</li> </ul>                                                                                                                                                     |
| Rick L Wittenbraker . . . . .   | 66         | <ul style="list-style-type: none"> <li>• Senior Vice President and General Counsel since November 2003.</li> <li>• Chief Compliance Officer from November 2003 to September 2013.</li> </ul>                                                                                                                     |

# EXECUTIVE COMPENSATION

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## COMPENSATION DISCUSSION AND ANALYSIS

### Executive Summary

The objective of our executive compensation program is to attract, retain, reward and incentivize exceptional, talented employees who will lead the Company in the successful execution of its strategy. The Company seeks to accomplish this goal by designing a compensation program that is supportive of and aligns with the strategy of the Company and the creation of stockholder value, while discouraging excessive risk-taking. The following key structural elements and policies further the objective of our executive compensation program:

- a substantial portion of executive compensation is linked to Company performance, through annual cash incentive performance criteria and long-term equity-based incentive awards. As a result, our executive compensation program provides for a significant difference in total compensation in periods of above-target Company performance as compared to periods of below-target Company performance. In 2013, our performance-based annual cash incentive and long-term equity-based incentive awards comprised approximately 87% of total target compensation for our President and Chief Executive Officer and approximately 74% of total target compensation for our other currently-serving named executives;
- performance-based awards include threshold, target and maximum payouts correlating to a range of performance goals and are based on a variety of indicators of performance, which limits risk-taking behavior;
- our compensation mix targets approximately 50% of total compensation of our named executives (and approximately 70% in the case of our President and Chief Executive Officer) to result from long-term equity awards, which aligns executives' interests with those of stockholders;
- performance stock units' three-year performance period, as well as stock options' vesting over a three-year period, link executives' interests with long-term performance and reduce incentives to maximize performance in any one year;
- all of our named executive officers are subject to stock ownership requirements, which we believe demonstrates a commitment to, and confidence in, the Company's long-term prospects;
- the Company has clawback provisions in its equity award agreements and recent employment agreements, as well as a general clawback policy, designed to recoup compensation in certain cases when cause and/or misconduct are found;
- our executive officer severance policy implemented a limitation on the amount of benefits the Company may provide to its executive officers under severance agreements entered into after the date of such policy; and
- the Company has adopted a policy that prohibits it from entering into new agreements with executive officers that provide for certain death benefits or tax gross-up payments.

### *2013 Company Performance and Compensation Results*

Every day, we are helping industries, communities and individuals reduce, reuse and remove waste better through sound sustainability strategies. We have a precise day-to-day focus on collecting and handling our customers' waste efficiently and responsibly. Meanwhile, we are also developing and implementing new ways to handle and extract value from waste. Drawing on our resources and experience, we actively pursue projects and initiatives that benefit the waste industry, the customers and communities we serve and the environment. We are also committed to providing long-term value to our stockholders by successfully executing on our strategic goals of optimizing our business, knowing and servicing the customer better than anyone else, and extracting more value from the materials we handle.



In furtherance of these goals, we experienced notably stronger free cash flow in 2013 when compared to 2012 due to improvements in cash flow from operations, primarily as a result of our pricing discipline. In 2013, our internal revenue growth from yield was at its highest level for the year in the fourth quarter and greater than 2.0% for the full year for the first time since 2010. Our cash flow also benefitted from our increased focus on capital spending management, and we continued to see the anticipated benefits from our cost savings programs, including lower selling, general and administrative costs when compared to 2012. Further, we increased the amount we returned to stockholders in 2013 compared to 2012 by increasing our dividend and repurchasing shares. Our fourth quarter and full year results for 2013 laid a foundation that we expect will benefit us in 2014, allowing us to focus on generating solid earnings and cash flow driven by increased yield and cost controls. The Company also expects to continue to use free cash flow to pay dividends, repurchase shares, reduce debt and make appropriate acquisitions and investments in the traditional solid waste business.

In line with the Company's financial results, the following is a summary of the 2013 compensation program results:

- after holding base salaries flat in 2012, the Company granted a three percent merit increase to base salaries in 2013, with additional increases as necessary in limited cases to better reflect an executive's recent promotion and contribution.
- Company performance on annual cash incentive performance measures for named executive officers exceeded the target level for each measure. As a result, each of the named executives received an annual cash incentive payment for fiscal year 2013 equal to 153.7% of target.
- the Company generated a return on invested capital, for purposes of performance goals associated with our performance share units ("PSUs") granted in 2011, that was above threshold for the three-year performance period ended December 31, 2013 but below target, resulting in a 60.45% payout on the PSUs in shares of Common Stock.

The 2013 results continue to reinforce our emphasis on performance-based compensation. The MD&C Committee strives to establish performance goals that are challenging, but attainable, and the MD&C Committee remains dedicated to the principle that executive compensation should be substantially linked to Company performance. Accordingly, the compensation of the Company's executive officers set forth in the Summary Compensation Table of this Proxy Statement, whom we refer to as the "named executive officers" or "named executives," evidences our commitment to pay for performance.

### ***Consideration of Stockholder Advisory Vote***

The MD&C Committee established the 2013 compensation plan in early 2013, before the stockholder advisory vote on executive compensation in May 2013. However, the MD&C Committee noted the results of the advisory stockholder votes in May 2012 and May 2011, with 96% and 97%, respectively, of shares present and entitled to vote at the annual meeting voting in favor of the Company's executive compensation, and has since noted the results of the May 2013 advisory stockholder vote, with 97% of shares present and entitled to vote at the annual meeting voting in favor of the Company's executive compensation. Accordingly, the results of the stockholder advisory vote have not caused the MD&C Committee to recommend any changes to our compensation practices.

### ***2014 Compensation Program Preview***

The Company continues to adapt its compensation program to best support our strategy and the accomplishment of our goals. As a result, the MD&C Committee has approved the following elements for our executive compensation program for 2014:

- *Annual Cash Incentive Performance Measures:* In 2014, we will retain the Income from Operations Margin performance measure from the 2013 annual cash incentive program, and we have reincorporated our prior Income from Operations excluding Depreciation and Amortization performance measure; each of these two measures will be weighted 25%. We have revised the cost

control performance measure for 2014, which will be weighted 50%, to focus on Operating Expense as a percent of Net Revenue.

- *Allocation of Long-Term Incentive Plan Awards:* As in 2013, the total value of each named executive's annual long-term incentive plan award for 2014 will continue to be allocated 80% to performance share units and 20% to stock options.
- *Performance Share Unit Performance Goals:* As in 2013, half of the performance share units granted in 2014 will be subject to a performance measure based on total shareholder return relative to the S&P 500. The remaining half of all performance share units granted in 2014 will be subject to a performance measure based on free cash flow over the performance period. All performance share units will continue to have a three-year performance period.

### **Our Compensation Philosophy for Named Executive Officers**

The Company's compensation philosophy is designed to:

- Attract and retain exceptional employees through competitive compensation opportunities;
- Encourage and reward performance through substantial at-risk performance-based compensation; and
- Align our decision makers' long-term interests with those of our stockholders through emphasis on equity ownership.

Additionally, our compensation philosophy is intended to encourage executives to embrace the change necessary to achieve the Company's goals and to lead the Company in setting aspirations that will drive a change in Company-wide culture.

With respect to our named executive officers, the MD&C Committee believes that total direct compensation at target should be in a range around the competitive median according to the following:

- Base salaries should be paid within a range of plus or minus 10% around the competitive median, but attention must be given to individual circumstances, including strategic importance of the named executive's role, the executive's experience and individual performance;
- Short-term incentive opportunities should be within a range of plus or minus 15% around the competitive median; and
- Long-term incentive and total direct compensation opportunities should be within a range of plus or minus 20% around the competitive median.

## Overview of Elements of Our 2013 Compensation Program

| Timing                           | Component               | Purpose                                                                                                                                                                                                                                            | Key Features                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current                          | Base Salary             | To attract and retain executives with a competitive level of regular income                                                                                                                                                                        | Adjustments to base salary primarily consider competitive market data and the executive's individual performance and responsibilities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Short-Term Performance Incentive | Annual Cash Incentive   | To encourage and reward contributions to our annual financial objectives through performance-based compensation subject to challenging, objective and transparent metrics                                                                          | <p>Cash incentives are targeted at a percentage of base salary and could range from zero to 200% of target based on the following performance measures:</p> <ul style="list-style-type: none"> <li>Income from Operations Margin – motivates employees to control and lower costs and operate efficiently – weighted 25%;</li> <li>Income from Operations, excluding Depreciation and Amortization, less Capital Expenditures – designed to encourage disciplined capital spending – weighted 25%; and</li> <li>Selling, General &amp; Administrative, or SG&amp;A, Expense – increases our focus on controlling costs – weighted 50% and subject to a “gate” that requires Operating Expense as a percentage of Net Revenue to be equal to or better than a target based on 2012 performance.</li> </ul> <p>The MD&amp;C Committee has discretion to increase or decrease an individual's payment by up to 25% based on individual performance, but such modifier has never been used to increase a payment to a named executive.</p> |
| Long-Term Performance Incentives | Performance Share Units | <p>To encourage and reward building long-term stockholder value through profitable allocation of capital;</p> <p>To retain executives; and</p> <p>To increase stockholder alignment through executives' stock ownership</p>                        | <p>Number of shares delivered can range from zero to 200% of the initial target grant based on performance over a three-year performance period.</p> <p>Payout on 50% of each executives' PSUs granted in 2013 are dependant on return on invested capital, or ROIC, and payout on the remaining 50% of PSUs granted in 2013 are dependant on total shareholder return relative to the S&amp;P 500, or TSR.</p> <p>PSUs earn dividend equivalents that are paid at the end of the performance period based on the number of shares actually awarded.</p> <p>Recipients can defer the receipt of shares, which are paid out in shares of Common Stock, without interest, at the end of the deferral period.</p>                                                                                                                                                                                                                                                                                                                         |
|                                  | Stock Options           | <p>To support the growth element of the Company's strategy and encourage and reward stock price appreciation over the long-term;</p> <p>To retain executives; and</p> <p>To increase stockholder alignment through executives' stock ownership</p> | <p>Stock options vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% vest on the third anniversary.</p> <p>Exercise price is the average of the high and low market price of our Common Stock on the date of grant.</p> <p>Stock options have a term of ten years.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

**Post-Employment and Change-in-Control Compensation.** The compensation our named executives receive post-employment is based on provisions included in individual equity award agreements, retirement plan documents and employment agreements. Our equity award agreements generally provide that an executive forfeits unvested awards if he or she voluntarily terminates employment. We enter into employment agreements with our named executive officers because they encourage continuity of our leadership team, which is particularly valuable as leadership manages the Company through the change needed to successfully implement our business strategy. Employment agreements also provide a form of protection for the Company through restrictive covenant provisions, and they provide the individual with comfort that he will be treated fairly in the event of a termination not for cause or under a change-in-control situation. The change-in-control provision

included in each named executive officer's agreement requires a double trigger in order to receive any payment in the event of a change-in-control situation. First, a change-in-control must occur, and second, the individual must terminate employment for good reason or the Company must terminate employment without cause within six months prior to or two years following the change-in-control event. Our stock option awards are also subject to double trigger vesting in the event of a change-in-control situation. Performance share units will be paid out in cash on a prorated basis based on actual results achieved through the end of the fiscal quarter prior to a change-in-control. Thereafter, the executive would typically receive a replacement award of restricted stock units in the successor entity. Restricted Stock Units ("RSUs"), which are not routinely a component of our executive compensation program, vest upon a change-in-control, unless the successor entity converts the awards to equivalent grants in the successor. Provided, however, such converted RSU awards will vest in full if the executive is terminated without cause following the change-in-control. We believe providing change-in-control protection encourages our named executives to pursue and facilitate change-in-control transactions that are in the best interests of stockholders while not granting executives an undeserved windfall.

*Deferral Plan.* Each of our named executive officers is eligible to participate in our 409A Deferral Savings Plan. The plan was amended and restated effective January 1, 2014 to restrict deferral of base salary and cash incentives to annual compensation in excess of \$255,000 (as such amount may be revised under Section 402(a)(17) of the Internal Revenue Code of 1985, as amended, the "Limit"). Accordingly, the plan currently provides that eligible employees may defer for payment at a future date (i) up to 25% of base salary and up to 100% of annual cash incentives payable after such employee's compensation for the year reaches the Limit; (ii) receipt of any RSUs; and (iii) receipt of any PSUs. The Company match provided under the Deferral Plan is dollar for dollar on the employee's salary and bonus deferrals, up to 3% of the employee's compensation in excess of the Limit, and fifty cents on the dollar on the employee's salary and bonus deferrals, up to 6% of the employee's compensation in excess of the Limit. Additional deferral contributions will not be matched but will be tax-deferred. Amounts deferred under this plan are allocated into accounts that mirror selected investment funds in our 401(k) plan, although the amounts deferred are not actually invested in the funds. In prior years, participants could elect to receive distribution of deferred compensation (i) in a lump sum on a future date on or after termination of employment or retirement or (ii) in annual installments over up to ten years, to begin after any future date or age specified by the employee. Under the amended and restated plan, participating employees can generally elect to receive distributions commencing six months after the employee leaves the Company in the form of annual installments or a lump sum payment. We believe that providing a program that allows and encourages planning for retirement is a key factor in our ability to attract and retain talent. Additional details on the plan can be found in the Nonqualified Deferred Compensation table and the footnotes to the table on page 43.

*Perquisites.* Based on a security assessment by an outside consultant, for security purposes, the Company requires the President and Chief Executive Officer to use the Company's aircraft for business and personal use whenever reasonably possible. Use of the Company's aircraft is permitted for other employees' personal use only with Chief Executive Officer approval in special circumstances, which seldom occurs. The value of our named executives' personal use of the Company's airplanes is treated as taxable income to the respective executive in accordance with IRS regulations using the Standard Industry Fare Level formula. This is a different amount than we disclose in the Summary Compensation Table, which is based on the SEC requirement to report the incremental cost to us of their use.

Following the promotion of Mr. James Fish as Executive Vice President and Chief Financial Officer in August of 2012, Mr. Fish was permitted limited personal use of the Company's aircraft to facilitate travel to and from the Company's headquarters in Houston and his home in Pittsburgh, where he led the Company's Eastern Group prior to his promotion. Mr. Fish and Mr. Morris recently relocated to Houston, and the Company provided each of them with relocation assistance in 2013. The Company believes these are appropriate business expenditures that benefited the Company, while recognizing these benefits are likely considered perquisites by the SEC.

We also reimburse the cost of physical examinations for our senior executives, as we believe it is beneficial to the Company to facilitate its executives receiving preventive healthcare. Other than as described in this section, we have eliminated all perquisites for our named executive officers.

## **Our Named Executive Officers**

Our named executive officers for 2013 are:

- Mr. David Steiner – has served Waste Management as Chief Executive Officer since 2004 and President since June 2010.
- Mr. James Trevathan – was promoted to the position of Executive Vice President and Chief Operating Officer in July 2012.
- Mr. James Fish – was promoted to the position of Executive Vice President and Chief Financial Officer in August 2012.
- Mr. Jeff Harris – was promoted to the position of Senior Vice President – Field Operations in July 2012.
- Mr. John Morris – was promoted to the position of Senior Vice President – Field Operations in July 2012.

## **How Named Executive Officer Compensation Decisions are Made**

The MD&C Committee meets several times each year to perform its responsibilities as delegated by the Board of Directors and as set forth in the MD&C Committee's charter. These responsibilities include evaluating and approving the Company's compensation philosophy, policies, plans and programs for our named executive officers.

In the performance of its duties, the MD&C Committee regularly reviews the total compensation, including the base salary, target annual cash incentive award opportunities, long-term incentive award opportunities and other benefits, including potential severance payments for each of our named executive officers. At a regularly scheduled meeting each year, the MD&C Committee reviews our named executives' total compensation and compares that compensation to the competitive market, as discussed below. In the first quarter of each year, the MD&C Committee meets to determine salary increases, if any, for the named executive officers; verifies the results of the Company's performance for annual cash incentive and performance share unit calculations; reviews the individual annual cash incentive targets for the current year as a percent of base salary for each of the named executive officers; and makes decisions on granting long-term equity awards.

*Compensation Consultant.* The MD&C Committee uses several resources in its analysis of the appropriate compensation for the named executive officers. The MD&C Committee selects and employs an independent consultant to provide advice relating to market and general compensation trends. The MD&C Committee also uses the services of its independent consultant for data gathering and analyses. The MD&C Committee has retained Frederic W. Cook & Co., Inc. as its independent consultant since 2002. The Company makes regular payments to Frederic W. Cook for its services around executive compensation, including meeting preparation and attendance, advice, and best practice information, as well as competitive data. Information about such payments is submitted to the chair of the MD&C Committee.

In addition to services related to executive compensation, Frederic W. Cook also provides the MD&C Committee information and advice considered when recommending compensation of the independent directors. Frederic W. Cook has no other business relationships with the Company and receives no other payments from the Company. The MD&C Committee adopted a written policy to ensure the independence of any compensation consultants it uses for executive compensation matters. The MD&C Committee has considered the independence of Frederic W. Cook in light of SEC rules and New York Stock Exchange listing standards. In connection with this process, the MD&C Committee has reviewed, among other items, a letter from Frederic W. Cook addressing the independence of Frederic W. Cook and the members of the consulting team serving the MD&C Committee, including the following factors: (i) other services provided to us by Frederic W. Cook, (ii) fees paid by us as a percentage of Frederic W. Cook's total revenue, (iii) policies or procedures of Frederic W. Cook that are designed to prevent conflicts of interest, (iv) any business or personal relationships between the senior advisor of the consulting team with a member of the MD&C Committee, (v) any Company stock owned by the senior advisor or any member of his immediate family, and (vi) any business or personal relationships between our executive officers and the senior advisor. The MD&C Committee discussed these considerations and concluded that the work performed by Frederic W. Cook and its senior advisor involved in the engagement did not raise any conflict of interest.

*Role of CEO and Human Resources.* Mr. Steiner contributes to compensation determinations by assessing the performance of the other named executive officers and providing these assessments with recommendations to the MD&C Committee. Personnel within the Company's Human Resources Department assist the MD&C Committee by working with the independent consultant to provide information requested by the MD&C Committee and assisting it in designing and administering the Company's incentive programs.

*Peer Company Comparisons.* The MD&C Committee uses compensation information of comparison groups of companies to gauge the competitive market, which is relevant for attracting and retaining key talent and for ensuring that the Company's compensation practices are aligned with prevalent practices. For purposes of establishing the 2013 executive compensation program, the MD&C Committee considered a competitive analysis of total direct compensation levels and compensation mixes for our executive officers during the second half of 2012, using information from:

- Size-adjusted median compensation data from two general industry surveys in which management annually participates; the Aon Hewitt 2012 Total Compensation Measurement (TCM) survey and the Towers Watson 2012 Compensation Data Bank (CDB) survey. The AonHewitt TCM survey includes over 350 companies ranging in size from \$500 million to over \$100 billion in annual revenue. The Towers Watson CDB survey includes over 435 organizations ranging in size from \$250 million to over \$100 billion in annual revenue. Data selected from these surveys is scoped based on Company revenue; and
- Median compensation data from a comparison group of 19 publicly traded U.S. companies, described below.

The comparison group of companies is initially recommended by the independent consultant prior to the actual data gathering process, with input from management and the MD&C Committee. The composition of the group is evaluated and a final comparison group of companies is approved by the MD&C Committee each year. The selection process for the comparison group begins with all companies in the Standard & Poor's North American database that are publicly traded U.S. companies in 16 different Global Industry Classifications. These industry classifications are meant to provide a collection of companies in industries that share similar characteristics with Waste Management. The companies are then limited to those with at least \$5 billion in annual revenue to ensure appropriate comparisons, and further narrowed by choosing those with asset intensive domestic operations, as well as those focusing on transportation and logistics. Companies with these characteristics are chosen because the MD&C Committee believes that it is appropriate to compare our executives' compensation with executives that have similar responsibilities and challenges at other companies. Prior to establishing compensation for 2013, the MD&C Committee received a statistical analysis of the growth profile, profitability profile, size and shareholder return of all companies in the comparison group to verify that the Company is appropriately positioned versus the comparison group. The comparison group used for consideration of 2013 compensation is set forth below, including the Company's composite percentile ranking among the companies in the comparison group based on statistical measures. For purposes of this table, "size" is based on numerous factors as of December 31, 2011; "profitability" and "growth" are based on numerous factors measured over a one-year period and three-year period ended December 31, 2011; and "TSR" is based on the companies' average TSR percentile ranking for a one-year period and three year-period as of December 31, 2011. This table is provided to reflect how the MD&C Committee confirmed that the Company was appropriately positioned within its peer group for purposes of establishing 2013 compensation during 2012; as a result, the information below does not reflect the Company's performance for 2013.



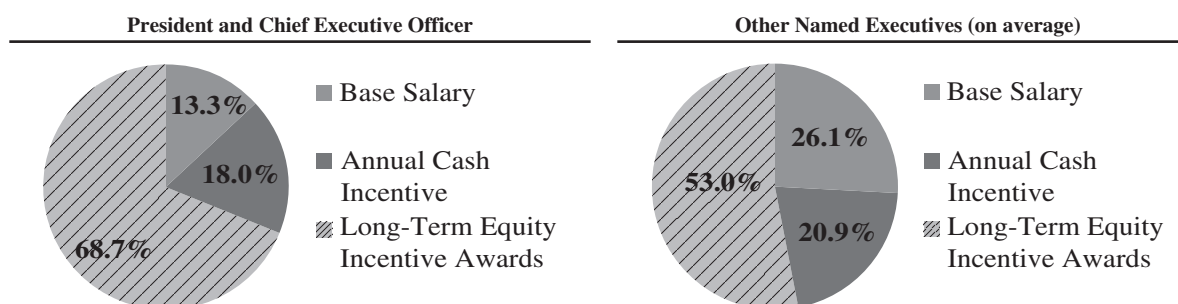
| <u>Company Name</u>           | <u>Composite Percentile Rank</u> |                      |               |            |
|-------------------------------|----------------------------------|----------------------|---------------|------------|
|                               | <u>Size</u>                      | <u>Profitability</u> | <u>Growth</u> | <u>TSR</u> |
| American Electric Power ..... | 56%                              | 51%                  | 59%           | 61%        |
| Avis Budget Group .....       | 9%                               | 0%                   | 22%           | 53%        |
| Baker Hughes .....            | 68%                              | 45%                  | 63%           | 42%        |
| C.H. Robinson WW .....        | 12%                              | 69%                  | 48%           | 25%        |
| CSX .....                     | 57%                              | 67%                  | 50%           | 61%        |
| Entergy .....                 | 43%                              | 50%                  | 23%           | 36%        |
| Fedex .....                   | 80%                              | 56%                  | 77%           | 25%        |
| Grainger (WW) .....           | 19%                              | 72%                  | 70%           | 97%        |
| Halliburton .....             | 76%                              | 78%                  | 66%           | 44%        |
| Hertz .....                   | 23%                              | 8%                   | 30%           | 47%        |
| Nextera Energy .....          | 65%                              | 52%                  | 35%           | 58%        |
| Norfolk Southern .....        | 55%                              | 66%                  | 41%           | 72%        |
| Republic Services .....       | 35%                              | 26%                  | 67%           | 25%        |
| Ryder System .....            | 12%                              | 17%                  | 37%           | 53%        |
| Southern .....                | 81%                              | 57%                  | 46%           | 72%        |
| Southwest Airlines .....      | 38%                              | 12%                  | 51%           | 0%         |
| Sysco .....                   | 49%                              | 63%                  | 30%           | 44%        |
| Union Pacific .....           | 85%                              | 79%                  | 62%           | 81%        |
| UPS .....                     | 85%                              | 82%                  | 55%           | 53%        |
| <b>Waste Management</b>       | <b>47%</b>                       | <b>48%</b>           | <b>26%</b>    | <b>22%</b> |

The general industry data and the comparison group data are blended when composing the competitive analysis, when possible, such that the combined general industry data and the comparison group are each weighted 50%. The competitive analysis showed that the Company's named executives' 2013 total direct compensation opportunities were positioned at median for our President and Chief Executive Officer and did not exceed the median range for our other named executive officers. For competitive comparisons, the MD&C Committee has determined that total direct compensation packages for our named executive officers within a range of plus or minus 20% of the median total compensation of the competitive analysis is appropriate. In making these determinations, total direct compensation consists of base salary, target annual cash incentive, and the annualized grant date fair value of long-term equity incentive awards.

Allocation of Compensation Elements and Tally Sheets. The MD&C Committee considers the forms in which total compensation will be paid to executive officers and seeks to achieve an appropriate balance between base salary, annual cash incentive compensation and long-term incentive compensation. The MD&C Committee determines the size of each element based primarily on comparison group data and individual and Company performance. The percentage of compensation that is contingent on achievement of performance criteria typically increases in correlation to an executive officer's responsibilities within the Company, with performance-based incentive compensation making up a greater percentage of total compensation for our most senior executive officers. Additionally, as an executive becomes more senior, a greater percentage of the executive's compensation shifts away from short-term to long-term incentive awards.

The MD&C Committee uses tally sheets to review the compensation of our named executive officers, which show the cumulative impact of all elements of compensation. These tally sheets include detailed information and dollar amounts for each component of compensation, the value of all equity held by each named executive, and the value of welfare and retirement benefits and severance payments. Tally sheets provide the MD&C Committee with the relevant information necessary to determine whether the balance between long-term and short-term compensation, as well as fixed and variable compensation, is consistent with the overall compensation philosophy of the Company. This information is also useful in the MD&C Committee's analysis of whether total direct compensation provides a compensation package that is appropriate and competitive. Tally sheets are provided annually to the full Board of Directors.

The following charts display the allocation of total 2013 compensation among base salary, annual cash incentive at target and long-term incentives at target for (a) our President and Chief Executive Officer and (b) our other named executives, on average. These charts reflect the MD&C Committee's 2013 desired total mix of compensation for named executives, which includes 48% of total compensation relating to long-term equity, while long-term equity comprises approximately 69% of Mr. Steiner's total compensation. These charts also reflect that approximately 87% of Mr. Steiner's target total compensation in 2013 was performance-based, while approximately 74% of the target total compensation for 2013 for the other named executives was performance-based. We consider stock options granted under our long-term incentive plan to be performance-based because their value will increase as the market value of our Common Stock increases.



**Internal Pay Equity.** The MD&C Committee considers the differentials between compensation of the individual named executive officers, as well as the additional responsibilities of the President and Chief Executive Officer compared to the other executive officers. Internal comparisons are also made between executive officers and their direct reports. The MD&C Committee confirms that the compensation paid to executive officers is reasonable compared to that of their direct reports, while recognizing that an executive's actual total compensation, as a multiple of the total compensation of his or her subordinates, will increase in periods of above-target performance and decrease in times of below-target performance.

**Tax and Accounting Matters.** Section 162(m) of the Internal Revenue Code of 1985, as amended ("Code Section 162(m)"), denies a compensation deduction for federal income tax purposes for certain compensation in excess of \$1 million per person paid in any year to our President and Chief Executive Officer and our other three highest paid executives. "Performance-based" compensation meeting specified standards is deductible without regard to the \$1 million cap. We design our compensation plans to be tax efficient for the Company where possible. However, our MD&C Committee reserves the right to structure the compensation of our executive officers without regard for whether the compensation is fully deductible if, in the MD&C Committee's judgment, it is in the best interests of the Company and stockholders to do so.

The annual cash incentive plan is designed to comply with the performance-based compensation exemption under Code Section 162(m) by allowing the MD&C Committee to set performance criteria for payments, which may not exceed the predetermined amount of 0.5% of the Company's pre-tax income from operations per participant. Our performance share unit awards are also intended to meet the qualified performance-based compensation exception under Code Section 162(m).

Section 409A of the Internal Revenue Code of 1986, as amended ("Code Section 409A"), generally provides that any deferred compensation arrangement which does not meet specific requirements will result in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In general, to avoid a Code Section 409A violation, amounts deferred may only be paid out on separation from service, disability, death, a specified time or fixed schedule, a change-in-control or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar year prior to performance of services. We intend to structure all of our compensation arrangements, including our Deferral Plan, in a manner that complies with or is exempt from Code Section 409A.

We account for stock-based payments, including stock options and PSUs, in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation. The MD&C



Committee takes into consideration the accounting treatment under ASC Topic 718 when determining the form and amount of annual long-term equity incentive awards. However, because our long-term equity incentive awards are based on a target dollar value established prior to grant (described in further detail under “Named Executives’ 2013 Compensation Program and Results — Long-Term Equity Incentives”), this “value” will differ from the grant date fair value of awards calculated pursuant to ASC Topic 718.

**Risk Assessment.** The MD&C Committee uses the structural elements set forth in the Executive Summary earlier to establish compensation that will provide sufficient incentives for named executive officers to drive results while avoiding unnecessary or excessive risk taking that could harm the long-term value of the Company. During 2013, the MD&C Committee reviewed the Company’s compensation policies and practices and the assessment and analysis of related risk conducted by the independent compensation consultant. Based on this review and analysis, the MD&C Committee and the independent compensation consultant concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

**Consideration of Stockholder Advisory Vote on Executive Compensation.** The MD&C Committee reviews the results of the stockholder advisory vote on executive compensation and considers any implications of such voting results on the Company’s compensation programs. In light of the very high percentage of shares present and entitled to vote at the annual meeting voting in favor of the Company’s executive compensation the past three years, the results of the stockholder advisory votes have not caused the MD&C Committee to recommend any changes to our compensation practices.

## **Named Executives’ 2013 Compensation Program and Results**

### **Base Salary**

After foregoing base salary increases in 2012 to support the Company’s cost saving initiatives, the Company granted a three percent increase to base salary in the Spring of 2013, in line with the Company-wide budget. Certain additional base salary increases were granted to Messrs. Trevathan and Morris upon consideration of competitive market data and as necessary to better reflect the executive’s recent promotion and contribution. The table below shows 2012 base salary, percent increase and 2013 base salary for each of our named executive officers.

| <b><u>Named Executive Officer</u></b> | <b><u>2012<br/>Base Salary</u></b> | <b><u>Percent<br/>Increase</u></b> | <b><u>2013<br/>Base Salary</u></b> |
|---------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Mr. Steiner . . . . .                 | \$1,127,500                        | 3.0%                               | \$1,161,325                        |
| Mr. Trevathan . . . . .               | \$ 566,298                         | 6.0%                               | \$ 600,000                         |
| Mr. Fish . . . . .                    | \$ 500,000                         | 3.0%                               | \$ 515,000                         |
| Mr. Harris . . . . .                  | \$ 536,278                         | 3.0%                               | \$ 552,366                         |
| Mr. Morris . . . . .                  | \$ 400,000                         | 18.8%                              | \$ 475,000                         |

### **Annual Cash Incentive**

- *Annual cash incentives were dependant on the following performance measures: Income from Operations as a percentage of Revenue, or Income from Operations Margin (25%); Income from Operations, excluding Depreciation and Amortization, less Capital Expenditures, or Cash Flow Measure (25%); and SG&A Expense, or Cost Measure (50%).*
- *Each of the named executives received an annual cash incentive payment in March 2014 for fiscal year 2013 equal to 153.7% of target.*

For purposes of 2013 annual cash incentives for named executives, performance is measured using the Company's consolidated results of operations. The table below details the Company-wide performance measures set by the MD&C Committee for the named executive officers in 2013.

|                                                                                                                                        | <u>Threshold<br/>Performance<br/>(60% Payment)</u> | <u>Target<br/>Performance<br/>(100% Payment)</u> | <u>Maximum<br/>Performance<br/>(200% Payment)</u> |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|---------------------------------------------------|
| <b>Income from Operations Margin</b> . . . . .                                                                                         | 14.6%                                              | 15.0%                                            | 16.0%                                             |
| <b>Income from Operations excluding<br/>Depreciation and Amortization, less Capital<br/>Expenditures (Cash Flow Measure)</b> . . . . . | \$1.80 billion                                     | \$ 1.95 billion                                  | \$2.12 billion                                    |
| <b>SG&amp;A Expense (Cost Measure)*</b> . . . . .                                                                                      | \$1.55 billion                                     | \$1.498 billion                                  | \$1.40 billion                                    |

\* This Cost Measure was subject to a gate; Operating Expense as a percentage of Net Revenue was required to be equal to or less than 53% before any payout could be earned on this measure. The Company successfully cleared this gate, with 2013 Operating Expense constituting 53% of Net Revenue, after adjustment for certain items discussed below.

The following table sets forth the Company's performance achieved on each of the annual cash incentive performance measures and the payout earned on account of such performance.

| <u>Income from Operations<br/>Margin (weighted 25%)</u> |                          | <u>Cash Flow Measure<br/>(weighted 25%)</u> |                          | <u>Cost Measure<br/>(weighted 50%)</u> |                          | <u>Total<br/>Payout Earned<br/>(as a percentage<br/>of Target)</u> |
|---------------------------------------------------------|--------------------------|---------------------------------------------|--------------------------|----------------------------------------|--------------------------|--------------------------------------------------------------------|
| <u>Actual</u>                                           | <u>Payout<br/>Earned</u> | <u>Actual</u>                               | <u>Payout<br/>Earned</u> | <u>Actual</u>                          | <u>Payout<br/>Earned</u> |                                                                    |
| 15.07%                                                  | 106.6%                   | \$2.13 billion                              | 200%                     | \$1.44 billion                         | 154%                     | 153.7%                                                             |

In determining actual performance achieved for the annual incentive plan's financial performance goals, the MD&C Committee has discretion to make adjustments to the calculations for unusual or otherwise non-operational matters that it believes do not accurately reflect results of operations expected from management for annual cash incentive purposes. In 2013, the calculation of performance on the Income from Operations Margin Measure and the Cash Flow Measure was adjusted to exclude the effects of (i) certain asset impairments and restructuring charges; (ii) costs related to integration of the acquired Greenstar business; (iii) changes in ten-year Treasury rates, which are used to discount remediation reserves; (iv) labor disruption costs and litigation settlements; and (v) the accounting reclassification of labor costs associated with the Oakleaf business. The calculation of performance on the Cost Measure was adjusted to exclude the effects of (i) certain costs related to the acquisition of RCI and (ii) litigation settlements. Operating Expense as a percentage of Net Revenue, which served as a "gate" for the Cost Measure, was adjusted to exclude the effects of (i) the acquisition and operations of the Greenstar business; (ii) changes in ten-year Treasury rates, which are used to discount remediation reserves; (iii) withdrawal from underfunded multiemployer pension plans; and (iv) the accounting reclassification of labor costs associated with the Oakleaf business. Adjustments are not made to forgive poor performance, and the MD&C Committee considers both positive and negative adjustments to results. Adjustments are made to ensure that rewards are aligned with the right business decisions and are not influenced by potential short-term gain or impact on cash incentives.

Target annual cash incentives are a specified percentage of the executives' base salary. The following table shows each named executive's target percentage of base salary for 2013 and annual cash incentive for 2013 paid in March 2014.

| <u>Named Executive Officer</u> | <u>Target Percentage<br/>of Base Salary</u> | <u>Annual Cash<br/>Incentive<br/>For 2013*</u> |
|--------------------------------|---------------------------------------------|------------------------------------------------|
| Mr. Steiner** .....            | 135                                         | \$2,387,194                                    |
| Mr. Trevathan** .....          | 85                                          | \$ 769,756                                     |
| Mr. Fish .....                 | 85                                          | \$ 666,540                                     |
| Mr. Harris .....               | 75                                          | \$ 630,795                                     |
| Mr. Morris .....               | 75                                          | \$ 519,843                                     |

\* Base salary increases for 2013 were not implemented until Spring of 2013; accordingly, the calculation of annual cash incentive payouts, as a percentage of base salary, was prorated to take account of the named executive's actual base salary received during 2013.

\*\* For 2013, the target percentage of base salary was increased from 115% to 135% and from 75% to 85% for Messrs. Steiner and Trevathan, respectively. These changes were made to better position the executives around the competitive median, to reflect their contributions and, in the case of Mr. Trevathan, to account for internal pay equity.

The MD&C Committee develops financial performance measures intended to drive behaviors to create performance and results, in particular focusing on generating strong cash flow and profitable revenue, cost cutting and cost control, and making the best use of our assets. The MD&C Committee found that the Income from Operations Margin and Cash Flow Measure used previously successfully supported these goals and resulted in disciplined capital spending. The MD&C Committee refined the Cost Measure for 2013 to increase our focus on controlling costs, specifically SG&A spending and operating expense. When setting threshold, target and maximum performance measure levels each year, the MD&C Committee looks to the Company's historical results of operations and analyses and forecasts for the coming year. Specifically, the MD&C Committee considers expected revenue based on analyses of pricing and volume trends, as affected by operational and general economic factors; expected wage, maintenance, fuel and other operational costs; and expected SG&A costs. The MD&C Committee believes these financial performance measures support and align with the strategy of the Company and are appropriate indicators of our progress toward the Company's goals.

**Long-Term Equity Incentives** — Our equity awards are designed to hold individuals accountable for long-term decisions by rewarding the success of those decisions. The MD&C Committee continuously evaluates the components of its programs. In determining which forms of equity compensation are appropriate, the MD&C Committee considers whether the awards granted are achieving their purpose; the competitive market; and accounting, tax or other regulatory issues, among others. In determining the appropriate awards for the named executives' 2013 annual long-term incentive grant, the MD&C Committee decided to grant both PSUs comprising 80% of each named executive's award and stock options comprising 20% of each named executive's award. Payout on 50% of each named executives' PSUs granted in 2013 are dependant on ROIC, to increase focus on improved asset utilization, and payout on the remaining 50% of PSUs granted in 2013 are dependant on total shareholder return relative to the S&P 500. Meanwhile, stock options encourage focus on increasing the market value of our stock. Before determining the actual number of PSUs and stock options that were granted to each of the named executives in 2013, the MD&C Committee established a target dollar amount for each named executive's annual total long-term equity incentive award. The values chosen were based primarily on the comparison information for the competitive market and an analysis of the named executives' responsibility for meeting the Company's strategic objectives. Target dollar amounts for equity incentive awards may vary from grant date fair values calculated for accounting purposes.

| <u>Named Executive Officer</u> | <u>Dollar Values of Annual Long-Term Equity Incentives Set by the Committee (at Target)</u> |
|--------------------------------|---------------------------------------------------------------------------------------------|
| Mr. Steiner .....              | \$6,000,000                                                                                 |
| Mr. Trevathan .....            | \$1,250,000                                                                                 |
| Mr. Fish .....                 | \$1,167,000                                                                                 |
| Mr. Harris .....               | \$1,067,000                                                                                 |
| Mr. Morris .....               | \$ 867,000                                                                                  |

#### Performance Share Units

- Named executives were granted new PSUs with a three-year performance period ending December 31, 2015.
- Payout on 50% of each named executives' PSUs granted in 2013 are dependant on ROIC, and payout on the remaining 50% of PSUs granted in 2013 are dependant on total shareholder return relative to the S&P 500.
- Named executive officers earned 60.45% payout on the PSUs that were granted in 2011 with the three-year performance period ended December 31, 2013; based on performance against an ROIC target described further below.

Performance share units are granted to our named executive officers annually to align compensation with the achievement of our long-term financial goals and to build stock ownership. Performance share units provide an immediate retention value to the Company because there is unvested potential value at the date of grant. The number of PSUs granted to our named executive officers corresponds to an equal number of shares of Common Stock. At the end of the three-year performance period for each grant, the Company will deliver a number of shares ranging from 0% to 200% of the initial number of units granted, depending on the Company's three-year performance against pre-established targets.

The MD&C Committee determined the number of PSUs that were granted to each of the named executives in 2013 by taking the targeted dollar amounts established for total long-term equity incentives (set forth in the table above) and multiplying by 80%. Those values were then divided by the average of the high and low price of our Common Stock over the 30 trading days preceding the MD&C Committee meeting at which the grants were approved to determine the target number of PSUs granted. The number of PSUs granted are shown in the table below.

| <u>Named Executive Officer</u> | <u>Number of Performance Share Units</u> |
|--------------------------------|------------------------------------------|
| Mr. Steiner .....              | 131,333                                  |
| Mr. Trevathan .....            | 27,361                                   |
| Mr. Fish .....                 | 25,544                                   |
| Mr. Harris .....               | 23,355                                   |
| Mr. Morris .....               | 18,978                                   |

Half of each named executive's PSUs included in the table set forth above are subject to an ROIC performance measure. ROIC is an indicator of our ability to generate returns for our stockholders. We have used a three-year average of ROIC to incentivize our named executive officers to ensure the strategic direction of the Company is being followed and motivate them to balance the short-term incentives awarded for growth with the long-term incentives awarded for value generated. ROIC in our plan is defined generally as net operating profit after taxes divided by capital. Capital is comprised of long-term debt, noncontrolling interests and stockholders' equity, less cash. The table below shows the required achievement of the ROIC performance measure and the corresponding potential payouts under our PSUs granted in 2013. If actual performance falls between target and either threshold or maximum levels, then the number of PSUs earned will be interpolated between the target performance amount and either the threshold or maximum performance amount, as applicable.

|            | <u>Threshold</u>   |               | <u>Target</u>      |               | <u>Maximum</u>     |               |
|------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
|            | <u>Performance</u> | <u>Payout</u> | <u>Performance</u> | <u>Payout</u> | <u>Performance</u> | <u>Payout</u> |
| ROIC ..... | 14.4%              | 60%           | 16.0%              | 100%          | 17.6%              | 200%          |

The remaining half of each named executive's PSUs are subject to total shareholder return relative to the S&P 500. The measure directly correlates executive compensation with creation of shareholder value. Total shareholder return is calculated as follows: (Common Stock price at end of performance period – Common Stock price at beginning of performance period + dividends during performance period) / Common Stock price at beginning of performance period. The table below shows the required achievement of the total shareholder return performance measure and the corresponding potential payouts under our PSUs granted in 2013.

| <b>Total Shareholder Return Relative to the S&amp;P 500</b> |               |
|-------------------------------------------------------------|---------------|
| <b>Performance</b>                                          | <b>Payout</b> |
| Top Quartile .....                                          | 150 – 200%    |
| Second Quartile .....                                       | 100 – 150%    |
| Median .....                                                | 100%          |
| Third Quartile .....                                        | 50 – 100%     |
| Bottom Quartile .....                                       | 0%            |

The different performance measure levels are determined based on an analysis of historical performance and current projections and trends. The MD&C Committee uses this analysis and modeling of different scenarios related to items that affect the Company's performance such as yield, volumes and capital to set the performance measures. As with the consideration of targets for the annual cash incentives, when the MD&C Committee established the ROIC targets, the MD&C Committee carefully considered several material factors affecting the Company for 2013 and beyond, including general economic and market conditions and economic indicators for future periods, to ensure that the ROIC targets align with the Company's long-range strategic plan. The table below shows progress toward the ROIC performance measure and the corresponding payouts for the additional PSUs that have been granted since 2010.

|                                             | <b>ROIC</b>      |               |                | <b>Award Earned</b>                                                                                                                  |
|---------------------------------------------|------------------|---------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------|
|                                             | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> |                                                                                                                                      |
| 2010 PSUs for period ended 12/31/12 . . . . | 15.8%            | 17.6%         | 21.1%          | 62.94% payout in shares of Common Stock issued in February 2013                                                                      |
| 2011 PSUs for period ended 12/31/13 . . . . | 15.1%            | 17.8%         | 21.4%          | Performance on this measure of 15.16%, or 85.17% of target, earned a 60.45% payout in shares of Common Stock issued in February 2014 |
| 2012 PSUs for period ended 12/31/14* . . .  | 15.0%            | 16.3%         | 18.2%          | Pending completion of performance period                                                                                             |

\* These PSUs comprised 50% of all the PSUs granted to named executives in 2012; the remaining 50% are discussed immediately below.

As in 2013, 50% of the PSUs granted in 2012 with a performance period ended December 31, 2014 are subject to total shareholder return relative to the S&P 500. As of December 31, 2013, the performance of the Company's Common Stock on this measure translated into a percentile rank relative to the S&P 500 of 47.16%, resulting in a projected 94.32% payout.

The MD&C Committee has discretion to make adjustments to the ROIC calculation for unusual or otherwise non-operational matters that it believes do not accurately reflect results of operations expected from management for cash incentive purposes. In February 2014, the MD&C Committee approved adjustments to the calculation of results under the 2011 awards that had a performance period ended December 31, 2013. Net operating profit after taxes used in the calculation of results was adjusted to exclude the effects of: (i) revisions of estimates associated with remedial liabilities and adjustment of legal reserves; (ii) changes in ten-year Treasury rates, which are used to discount remediation reserves; (iii) withdrawal from underfunded multiemployer pension plans and labor disruption costs; (iv) charges related to acquisition and integration, and earnings on account of, the acquired Oakleaf, Greenstar and RCI businesses; and (v) benefits from investments in low-income housing and a refined coal facility on tax rates. Capital used in the calculation of results was adjusted to exclude the impact of: (i) investments in a refined coal facility with associated tax credits and (ii) the purchase price for each

of Oakleaf, Greenstar and RCI, less associated goodwill. Additionally, stockholders' equity used in the calculation of capital excludes the impact of prior year tax audit settlements.

Adjustments are made to ensure that rewards are aligned with the right business decisions and are not influenced by potential short-term gain or impact on cash incentives. Adjustments are also necessary to take account of major transactions, such as acquisitions, which were not known or included in the calculation of the performance measures at the beginning of the performance period. The MD&C Committee considers both positive and negative adjustments, and the MD&C Committee strives to ensure that it takes a consistent approach to adjustments so that the nature of acceptable adjustments is very similar from year-to-year. Adjusting for certain items, like those discussed above, avoids creating disincentives for individuals to take actions that are for the longer-term good of the Company in order to meet short-term goals.

**Stock Options** — The MD&C Committee believes use of stock options is appropriate to support the growth element of the Company's strategy. The grant of options made to the named executive officers in the first quarter of 2013 in connection with the annual grant of long-term equity awards was based on the targeted dollar amounts established for total long-term equity incentives (set forth in the table above) and multiplied by 20%. The actual number of stock options granted was determined by assigning a value to the options using an option pricing model, and dividing the dollar value of target compensation by the value of an option. The resulting number of stock options are shown in the table below.

| <u>Named Executive Officer</u> | <u>Number of Options</u> |
|--------------------------------|--------------------------|
| Mr. Steiner .....              | 282,775                  |
| Mr. Trevathan .....            | 58,911                   |
| Mr. Fish .....                 | 55,000                   |
| Mr. Harris .....               | 50,287                   |
| Mr. Morris .....               | 40,861                   |

The stock options will vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% will vest on the third anniversary. The exercise price of the options is the average of the high and low market price of our Common Stock on the date of grant, and the options have a term of 10 years. See the Grant of Plan-Based Awards in 2013 table below for specific exercise prices. We account for our employee stock options under the fair value method of accounting using a Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period less expected forfeitures, except for stock options granted to retirement-eligible employees, for which expense is accelerated over the period that the recipient becomes retirement eligible.

## **Other Compensation Policies and Practices**

**Stock Ownership Requirements** — All of our named executive officers are subject to stock ownership guidelines. We instituted stock ownership guidelines because we believe that ownership of Company stock demonstrates a commitment to, and confidence in, the Company's long-term prospects and further aligns employees' interests with those of our stockholders. We believe that the requirement that these individuals maintain a portion of their individual wealth in the form of Company stock deters actions that would not benefit stockholders generally. Although there is no deadline set for executives to reach their ownership requirements, the guidelines contain a holding requirement. Until the individual's ownership requirement is achieved, Senior Vice Presidents and above are required to retain 100% of all net shares acquired through the Company's long-term incentive plans and Vice Presidents are required to retain at least 50% of such net shares. The requisite stock ownership level must thereafter be retained throughout the officer's employment with the Company. Additionally, the stock ownership guidelines generally require Senior Vice Presidents and above to hold all of their net shares and Vice Presidents to hold 50% of their net shares for at least one year after such shares are acquired, even if required ownership levels have already been achieved. Our MD&C Committee believes these holding periods discourage these individuals from taking actions in an effort to gain from short-term or otherwise fleeting increases in the market value of our stock.

The MD&C Committee regularly reviews its ownership guidelines to ensure that the appropriate share ownership requirements are in place. Guidelines were last revised in November 2012, when the ownership requirement for our Chief Executive Officer was increased from 165,000 shares to 225,500 shares, which is



approximately six times base salary. The stock ownership guidelines vary depending on the individual's title and are expressed as a fixed number of shares. Shares owned outright, deferred stock units, stock equivalents based on holdings in the Company's 401(k) Plan and phantom stock held in the Deferral Plan count toward meeting the targeted ownership requirements. Restricted stock shares, RSUs and PSUs, if any, do not count toward meeting the requirement until they are vested or earned. The following table outlines the ownership requirements and attainment of those requirements for the named executive officers.

| <u>Named Executive Officer</u> | <u>Ownership Requirement<br/>(number of shares)</u> | <u>Attainment as of<br/>March 17, 2014</u> |
|--------------------------------|-----------------------------------------------------|--------------------------------------------|
| Mr. Steiner* . . . . .         | 225,500                                             | 168%                                       |
| Mr. Trevathan . . . . .        | 87,350                                              | 213%                                       |
| Mr. Fish . . . . .             | 48,000                                              | 26%                                        |
| Mr. Harris . . . . .           | 48,000                                              | 102%                                       |
| Mr. Morris . . . . .           | 48,000                                              | 9%                                         |

\* The table above does not include 343,294 shares held in the name of Steiner Family Holdings, LLC that are pledged as security for a loan. Since such pledge was made, the Company has adopted a policy prohibiting future pledges of Company securities by executive officers without board-level approval and requiring that such pledged shares are not required to meet the executive's ownership requirement under the ownership guidelines.

The MD&C Committee also establishes ownership guidelines for the independent directors and performs regular reviews to ensure all independent directors are in compliance. As discussed in more detail under "Director and Officer Stock Ownership," all independent directors are in compliance with the ownership guidelines.

Policy Limiting Severance Benefits — The MD&C Committee has approved an Executive Officer Severance Policy that generally provides that the Company may not enter into new severance arrangements with its executive officers, as defined in the federal securities laws, that provide for benefits, less the value of vested equity awards and benefits provided to employees generally, in an amount that exceeds 2.99 times the executive officer's then current base salary and target annual cash incentive, unless such future severance arrangement receives stockholder approval. The policy applies to all of our named executive officers.

Policy Limiting Death Benefits and Gross-up Payments — The Company has adopted a "Policy Limiting Certain Compensation Practices," which generally provides that the Company will not enter into new compensation arrangements that would obligate the Company to pay a death benefit or gross-up payment to an executive officer unless such arrangement receives stockholder approval. The policy is subject to certain exceptions, including benefits generally available to management-level employees and any payment in reasonable settlement of a legal claim. Additionally, "Death Benefits" under the policy does not include deferred compensation, retirement benefits or accelerated vesting or continuation of equity-based awards pursuant to generally-applicable equity award plan provisions.

Insider Trading — The Company maintains an insider trading policy that prohibits executive officers from engaging in most transactions involving the Company's Common Stock during periods, determined by the Company, that those executives are most likely to be aware of material, non-public information. Executive officers must clear all of their transactions in our Common Stock with the Company's General Counsel's office to protect against transactions in our securities during a time when executives have material, non-public information. Additionally, it is our policy that executive officers are not permitted to hedge their ownership of Company securities, including trading in options, warrants, puts and calls or similar derivative instruments on any security of the Company or selling any security of the Company "short." Further, as noted above, the Company has adopted a policy prohibiting future pledges of Company securities by executive officers without board-level approval and requiring that such pledged shares are not required to meet the executive's ownership requirement under the ownership guidelines.

# EXECUTIVE COMPENSATION

## EXECUTIVE COMPENSATION TABLES

We are required to present compensation information in the tabular format prescribed by the SEC. This format, including the tables' column headings, may be different from the way we describe or consider elements and components of compensation internally. The Compensation Discussion and Analysis contains a discussion that should be read in conjunction with these tables to gain a complete understanding of our executive compensation philosophy, programs and decisions.

### Summary Compensation Table

| Year                                                                                          | Salary<br>(\$) | Stock<br>Awards<br>\$(1) | Option<br>Awards<br>\$(2) | Non-Equity<br>Incentive Plan<br>Compensation<br>\$(3) | All Other<br>Compensation<br>\$(4) | Total<br>(\$) |
|-----------------------------------------------------------------------------------------------|----------------|--------------------------|---------------------------|-------------------------------------------------------|------------------------------------|---------------|
| <b>David P. Steiner</b><br><b>President and Chief Executive Officer</b>                       |                |                          |                           |                                                       |                                    |               |
| 2013                                                                                          | 1,149,616      | 5,692,630                | 1,201,794                 | 2,387,194                                             | 295,348                            | 10,726,582    |
| 2012                                                                                          | 1,127,500      | 5,266,497                | 1,039,685                 | —                                                     | 228,456                            | 7,662,138     |
| 2011                                                                                          | 1,120,625      | 1,497,180                | 3,453,331                 | 1,095,356                                             | 269,921                            | 7,436,413     |
| <b>James E. Trevathan, Jr.</b><br><b>Executive Vice President and Chief Operating Officer</b> |                |                          |                           |                                                       |                                    |               |
| 2013                                                                                          | 588,334        | 1,185,964                | 250,372                   | 769,756                                               | 12,632                             | 2,807,058     |
| 2012                                                                                          | 566,298        | 936,797                  | 184,941                   | —                                                     | 12,550                             | 1,700,586     |
| 2011                                                                                          | 566,298        | 279,966                  | 1,518,777                 | 360,845                                               | 12,325                             | 2,738,211     |
| <b>James C. Fish, Jr.</b><br><b>Executive Vice President and Chief Financial Officer</b>      |                |                          |                           |                                                       |                                    |               |
| 2013                                                                                          | 509,808        | 1,107,205                | 233,750                   | 666,540                                               | 93,318                             | 2,610,621     |
| 2012                                                                                          | 439,616        | 907,269                  | 308,250                   | 54,418                                                | 99,656                             | 1,809,209     |
| <b>Jeff M. Harris</b><br><b>Senior Vice President — Field Operations</b>                      |                |                          |                           |                                                       |                                    |               |
| 2013                                                                                          | 546,798        | 1,012,324                | 213,720                   | 630,795                                               | 36,175                             | 2,439,812     |
| 2012                                                                                          | 536,278        | 949,014                  | 148,675                   | 184,913                                               | 45,135                             | 1,864,015     |
| 2011                                                                                          | 536,278        | 279,966                  | 645,777                   | 439,373                                               | 57,371                             | 1,958,765     |
| <b>John J. Morris, Jr.</b><br><b>Senior Vice President – Field Operations</b>                 |                |                          |                           |                                                       |                                    |               |
| 2013                                                                                          | 449,038        | 822,601                  | 173,659                   | 519,843                                               | 26,121                             | 1,991,262     |

- (1) Amounts in this column represent the grant date fair value of stock awards, which includes performance share units granted to all named executives in 2011, 2012 and 2013 and restricted stock units granted to Messrs. Fish and Harris in 2012. Restricted stock units comprised the following stock award values in 2012: \$154,177 to Mr. Fish and \$195,922 to Mr. Harris. The grant date fair values are calculated in accordance with the Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 718, as further described in Note 16 in the Notes to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

For purposes of calculating the grant date fair value of performance share awards, we have assumed that the Company will achieve target performance levels. The table below shows the aggregate grant date fair value of performance share units if we had assumed that the Company will achieve the highest level of performance criteria and maximum payouts will be earned.



|                      | Year | Aggregate Grant Date Fair Value of Award Assuming Highest Level of Performance Achieved (\$) |
|----------------------|------|----------------------------------------------------------------------------------------------|
| <b>Mr. Steiner</b>   | 2013 | 11,385,260                                                                                   |
|                      | 2012 | 10,532,994                                                                                   |
|                      | 2011 | 2,994,360                                                                                    |
| <b>Mr. Trevathan</b> | 2013 | 2,371,928                                                                                    |
|                      | 2012 | 1,873,594                                                                                    |
|                      | 2011 | 559,932                                                                                      |
| <b>Mr. Fish</b>      | 2013 | 2,214,410                                                                                    |
|                      | 2012 | 1,506,184                                                                                    |
| <b>Mr. Harris</b>    | 2013 | 2,024,648                                                                                    |
|                      | 2012 | 1,506,184                                                                                    |
|                      | 2011 | 559,932                                                                                      |
| <b>Mr. Morris</b>    | 2013 | 1,645,202                                                                                    |

- (2) Amounts in this column represent the grant date fair value of stock options granted in 2011, 2012 and 2013, in accordance with ASC Topic 718. The grant date fair value of the options was estimated using the Black-Scholes option pricing model. The assumptions made in determining the grant date fair values of options are disclosed in Note 16 in the Notes to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.
- (3) Amounts in this column represent cash incentive awards earned and paid based on the achievement of performance goals pursuant to our Annual Incentive Plan.
- (4) The amounts included in “All Other Compensation” for 2013 are shown below (in dollars):

|                      | Personal Use of Company Aircraft <sup>(a)</sup> | 401(k) Matching Contributions | Deferral Plan Matching Contributions | Life Insurance Premiums | Relocation <sup>(b)</sup> |
|----------------------|-------------------------------------------------|-------------------------------|--------------------------------------|-------------------------|---------------------------|
| <b>Mr. Steiner</b>   | 241,314                                         | 11,475                        | 40,258                               | 2,301                   | —                         |
| <b>Mr. Trevathan</b> | —                                               | 11,475                        | —                                    | 1,157                   | —                         |
| <b>Mr. Fish</b>      | 19,375                                          | 11,475                        | —                                    | 1,020                   | 61,448                    |
| <b>Mr. Harris</b>    | 2,153                                           | 11,475                        | 21,452                               | 1,095                   | —                         |
| <b>Mr. Morris</b>    | —                                               | 11,475                        | 9,073                                | 653                     | 4,920                     |

- (a) Mr. Steiner is required by us to use the Company aircraft for all travel, whether for personal or business purposes whenever reasonably possible. Messrs. Fish and Harris were permitted limited personal use of the Company’s aircraft in 2013. We calculated these amounts based on the incremental cost to us, which includes fuel, crew travel expenses, on-board catering, landing fees, trip related hangar/parking costs and other variable costs. We own or operate our aircraft primarily for business use; therefore, we do not include the fixed costs associated with the ownership or operation such as pilots’ salaries, purchase costs and non-trip related maintenance.
- (b) The Company provided relocation assistance in accordance with Company policy to Mr. Fish and Mr. Morris in 2013. The Company believes these are appropriate business expenditures that benefited the Company, while recognizing these benefits are likely considered perquisites by the SEC.

### Grant of Plan-Based Awards in 2013

| Grant Date              | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup> |                        |                         | Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup> |                       |                        | All other Option Awards: Number of Securities Underlying Options <sup>(#)</sup> <sup>(3)(4)</sup> | Exercise or Base Price of Option Awards <sup>(\$/sh)</sup> <sup>(5)</sup> | Closing Market Price on Date of Grant <sup>(\$)</sup> | Grant Date Fair Value of Stock and Option Awards <sup>(\$)</sup> <sup>(6)</sup> |
|-------------------------|----------------------------------------------------------------------------------|------------------------|-------------------------|----------------------------------------------------------------------------|-----------------------|------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------|
|                         | Threshold <sup>(\$)</sup>                                                        | Target <sup>(\$)</sup> | Maximum <sup>(\$)</sup> | Threshold <sup>(#)</sup>                                                   | Target <sup>(#)</sup> | Maximum <sup>(#)</sup> |                                                                                                   |                                                                           |                                                       |                                                                                 |
| David P. Steiner        |                                                                                  |                        |                         |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
|                         | 931,891                                                                          | 1,553,151              | 3,106,302               |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
| 03/08/13                |                                                                                  |                        |                         | 78,800                                                                     | 131,333               | 262,666                |                                                                                                   |                                                                           |                                                       | 5,692,630                                                                       |
| 03/08/13                |                                                                                  |                        |                         |                                                                            |                       |                        | 282,775                                                                                           | 36.885                                                                    | 36.92                                                 | 1,201,794                                                                       |
| James E. Trevathan, Jr. |                                                                                  |                        |                         |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
|                         | 300,490                                                                          | 500,817                | 1,001,634               |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
| 03/08/13                |                                                                                  |                        |                         | 16,417                                                                     | 27,361                | 54,722                 |                                                                                                   |                                                                           |                                                       | 1,185,964                                                                       |
| 03/08/13                |                                                                                  |                        |                         |                                                                            |                       |                        | 58,911                                                                                            | 36.885                                                                    | 36.92                                                 | 250,372                                                                         |
| James C. Fish, Jr.      |                                                                                  |                        |                         |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
|                         | 260,198                                                                          | 433,663                | 867,326                 |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
| 03/08/13                |                                                                                  |                        |                         | 15,326                                                                     | 25,544                | 51,088                 |                                                                                                   |                                                                           |                                                       | 1,107,205                                                                       |
| 03/08/13                |                                                                                  |                        |                         |                                                                            |                       |                        | 55,000                                                                                            | 36.885                                                                    | 36.92                                                 | 233,750                                                                         |
| Jeff M. Harris          |                                                                                  |                        |                         |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
|                         | 246,244                                                                          | 410,407                | 820,814                 |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
| 03/08/13                |                                                                                  |                        |                         | 14,013                                                                     | 23,355                | 46,710                 |                                                                                                   |                                                                           |                                                       | 1,012,324                                                                       |
| 03/08/13                |                                                                                  |                        |                         |                                                                            |                       |                        | 50,287                                                                                            | 36.885                                                                    | 36.92                                                 | 213,720                                                                         |
| John J. Morris, Jr.     |                                                                                  |                        |                         |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
|                         | 202,931                                                                          | 338,219                | 676,438                 |                                                                            |                       |                        |                                                                                                   |                                                                           |                                                       |                                                                                 |
| 03/08/13                |                                                                                  |                        |                         | 11,387                                                                     | 18,978                | 37,956                 |                                                                                                   |                                                                           |                                                       | 822,601                                                                         |
| 03/08/13                |                                                                                  |                        |                         |                                                                            |                       |                        | 40,861                                                                                            | 36.885                                                                    | 36.92                                                 | 173,659                                                                         |

- (1) Actual payouts of our 2013 cash incentive awards pursuant to our Annual Incentive Plan are shown in the Summary Compensation Table under “Non-Equity Incentive Plan Compensation.” The named executives’ target and maximum bonuses are a percentage of base salary approved by the MD&C Committee. The threshold levels represent the bonus amounts that would have been payable if the minimum performance requirements were met for each performance measure. Please see “Compensation Discussion and Analysis — Named Executive’s 2013 Compensation Program and Results — Annual Cash Incentive” for additional information about these awards, including performance criteria.
- (2) Represents the number of shares of Common Stock potentially issuable based on the achievement of performance criteria under performance share unit awards granted under our 2009 Stock Incentive Plan. Please see “Compensation Discussion and Analysis — Named Executive’s 2013 Compensation Program and Results — Long-Term Equity Incentives — Performance Share Units” for additional information about these awards, including performance criteria. The performance period for these awards ends December 31, 2015. Performance share units earn dividend equivalents, which are paid out based on the number of shares actually earned, if any, at the end of the performance period.
- (3) Although we consider all of our equity awards to be a form of incentive compensation because their value will increase as the market value of our Common Stock increases, only awards with performance criteria are considered “equity incentive plan awards” for SEC disclosure purposes. As a result, option awards are not included as “Equity Incentive Plan Awards” in the table above or the Outstanding Equity Awards at December 31, 2013 table.
- (4) Represents the number of shares of Common Stock potentially issuable upon the exercise of options granted under our 2009 Stock Incentive Plan. Please see “Compensation Discussion and Analysis — Named Executive’s 2013 Compensation Program and Results — Long-Term Equity Incentives — Stock Options” for additional information about these awards. The stock options will vest in 25% increments on the first two anniversaries of the date of grant and the remaining 50% will vest on the third anniversary.
- (5) The exercise price represents the average of the high and low market price on the date of the grant, in accordance with our 2009 Stock Incentive Plan.
- (6) These amounts represent grant date fair value of the awards as calculated under ASC Topic 718, as further described in Note 16 in the Notes to the Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

### Outstanding Equity Awards at December 31, 2013

| Name                           | Option Awards                                                                      |                                                                       |                            |                        | Stock Awards <sup>(1)</sup>                                                |                                                                    |                                                                                                                        |                                                                                                                          |
|--------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------|------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
|                                | Number of Securities Underlying Unexercised Options Exercisable (#) <sup>(2)</sup> | Number of Securities Underlying Unexercised Options Unexercisable (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) <sup>(8)</sup> | Market Value of Shares or Units of Stock that Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(9)</sup> | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| <b>David. P. Steiner</b>       |                                                                                    |                                                                       |                            |                        |                                                                            |                                                                    |                                                                                                                        |                                                                                                                          |
|                                | —                                                                                  | 282,775(3)                                                            | 36.885                     | 03/08/2023             | —                                                                          | —                                                                  | 269,916                                                                                                                | 12,111,131                                                                                                               |
|                                | 54,720                                                                             | 164,161(4)                                                            | 34.935                     | 03/09/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 291,666                                                                            | 291,667(5)                                                            | 37.185                     | 03/09/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 331,008                                                                            | —                                                                     | 33.49                      | 03/09/2020             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
| <b>James E. Trevathan, Jr.</b> |                                                                                    |                                                                       |                            |                        |                                                                            |                                                                    |                                                                                                                        |                                                                                                                          |
|                                | —                                                                                  | 58,911(3)                                                             | 36.885                     | 03/08/2023             | —                                                                          | —                                                                  | 52,012                                                                                                                 | 2,333,778                                                                                                                |
|                                | 9,733                                                                              | 29,202(4)                                                             | 34.935                     | 03/09/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 75,000                                                                             | 75,000(6)                                                             | 37.585                     | 07/05/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 54,540                                                                             | 54,544(5)                                                             | 37.185                     | 03/09/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 51,657                                                                             | —                                                                     | 33.49                      | 03/09/2020             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
| <b>James C. Fish, Jr.</b>      |                                                                                    |                                                                       |                            |                        |                                                                            |                                                                    |                                                                                                                        |                                                                                                                          |
|                                | —                                                                                  | 55,000(3)                                                             | 36.885                     | 03/08/2023             | 4,412                                                                      | 197,966                                                            | 45,361                                                                                                                 | 2,035,348                                                                                                                |
|                                | 8,865                                                                              | 26,596(7)                                                             | 34.945                     | 08/07/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 7,825                                                                              | 23,475(4)                                                             | 34.935                     | 03/09/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 23,316                                                                             | 23,316(6)                                                             | 37.585                     | 07/05/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 11,614                                                                             | 11,616(5)                                                             | 37.185                     | 03/09/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 14,632                                                                             | —                                                                     | 33.49                      | 03/09/2020             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
| <b>Jeff M. Harris</b>          |                                                                                    |                                                                       |                            |                        |                                                                            |                                                                    |                                                                                                                        |                                                                                                                          |
|                                | —                                                                                  | 50,287(3)                                                             | 36.885                     | 03/08/2023             | 6,061                                                                      | 271,957                                                            | 43,172                                                                                                                 | 1,937,128                                                                                                                |
|                                | 7,825                                                                              | 23,475(4)                                                             | 34.935                     | 03/09/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 54,540                                                                             | 54,544(5)                                                             | 37.185                     | 03/09/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 51,657                                                                             | —                                                                     | 33.49                      | 03/09/2020             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
| <b>John J. Morris, Jr.</b>     |                                                                                    |                                                                       |                            |                        |                                                                            |                                                                    |                                                                                                                        |                                                                                                                          |
|                                | —                                                                                  | 40,861(3)                                                             | 36.885                     | 03/08/2023             | 12,121                                                                     | 543,869                                                            | 24,692                                                                                                                 | 1,107,930                                                                                                                |
|                                | 2,256                                                                              | 6,769(4)                                                              | 34.935                     | 03/09/2022             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 11,614                                                                             | 11,616(5)                                                             | 37.185                     | 03/09/2021             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |
|                                | 13,302                                                                             | —                                                                     | 33.49                      | 03/09/2020             | —                                                                          | —                                                                  | —                                                                                                                      | —                                                                                                                        |

(1) Values are based on the closing price of the Company's Common Stock on December 31, 2013 of \$44.87.

(2) Represents vested stock options granted on March 9, 2010, March 9, 2011 and March 9, 2012 pursuant to our 2009 Stock Incentive Plan.

(3) Represents stock options granted on March 8, 2013 that vest 25% on the first and second anniversary of the date of grant and 50% on the third anniversary of the date of grant.

- (4) Represents stock options granted on March 9, 2012 that vested 25% on the first anniversary of the date of grant. An additional 25% will vest on the second anniversary of the date of grant and 50% will vest on the third anniversary of the date of grant.
- (5) Represents stock options granted on March 9, 2011 that vested 25% on the first and second anniversary of the date of grant. The remaining 50% will vest on the third anniversary of the date of grant.
- (6) Represents stock options granted July 5, 2011 that vested 25% on the first and second anniversary of the date of grant. The remaining 50% will vest on the third anniversary of the date of grant.
- (7) Represents stock options granted August 7, 2012 that vested 25% on the first anniversary of the date of grant. An additional 25% will vest on the second anniversary of the date of grant and 50% on the third anniversary of the date of grant.
- (8) Represents restricted stock units granted in 2012 in connection with certain promotions and increased responsibilities. The restricted stock units vest in full on the third anniversary of the date of grant.
- (9) Includes performance share units with three-year performance periods ending December 31, 2014 and December 31, 2015. We have assumed target performance criteria and target payout will be achieved for performance share units. Payouts on performance share units are made after the Company's financial results of operations for the entire performance period are reported and the MD&C Committee determines achievement of performance results and corresponding vesting, typically in mid to late February of the succeeding year. The performance share units for the performance period ended on December 31, 2013 are not included in the table as they are considered earned as of December 31, 2013 for proxy disclosure purposes; instead, such performance share units are included in the Option Exercises and Stock Vested table below. The following number of performance share units have a performance period ending December 31, 2014: Mr. Steiner – 138,583; Mr. Trevathan – 24,651; Mr. Fish – 19,817; Mr. Harris – 19,817; and Mr. Morris – 5,714. The following number of performance share units have a performance period ending on December 31, 2015: Mr. Steiner – 131,333; Mr. Trevathan – 27,361; Mr. Fish – 25,544; Mr. Harris – 23,355; and Mr. Morris – 18,978.

### Option Exercises and Stock Vested

| Name                   | Option Awards                             |                                 | Stock Awards <sup>(1)</sup>              |                                |
|------------------------|-------------------------------------------|---------------------------------|------------------------------------------|--------------------------------|
|                        | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| David P. Steiner       | 481,593 <sup>(2)</sup>                    | 6,787,712                       | 24,339 <sup>(3)</sup>                    | 1,032,460                      |
| James E. Trevathan, Jr | 190,000 <sup>(4)</sup>                    | 3,095,850                       | 4,551                                    | 193,053                        |
| James C. Fish, Jr.     | —                                         | —                               | 969 <sup>(5)</sup>                       | 41,105                         |
| Jeff M. Harris         | —                                         | —                               | 4,551                                    | 193,053                        |
| John J. Morris, Jr.    | —                                         | —                               | 969                                      | 41,105                         |

- (1) Includes performance share units granted in 2011 with a performance period ended December 31, 2013. The determination of achievement of performance results and corresponding vesting of such performance share units was performed by the MD&C Committee in February 2014. Following such determination, shares of the Company's Common Stock earned under this award were issued on February 18, 2014, based on the average of the high and low market price of the Company's Common Stock on that date.
- (2) We withheld shares in payment of the exercise price and statutory tax withholding from Mr. Steiner's exercise of non-qualified stock options. Mr. Steiner received an aggregate of 114,039 net shares in such transactions.
- (3) Mr. Steiner deferred receipt of 24,339 performance share units, earned for the performance period ended December 31, 2013, valued at \$1,032,460, until he leaves the company.
- (4) We withheld shares in payment of the exercise price and statutory tax withholding from Mr. Trevathan's exercise of non-qualified stock options. Mr. Trevathan received an aggregate of 50,386 net shares in such transactions.
- (5) Mr. Fish deferred receipt of 969 performance share units earned for the performance period ended December 31, 2013, valued at \$41,105, until he leaves the company.

### Nonqualified Deferred Compensation in 2013

| Name                   | Executive Contributions in Last Fiscal Year (\$) <sup>(1)</sup> | Registrant Contributions in Last Fiscal Year (\$) <sup>(2)</sup> | Aggregate Earnings in Last Fiscal Year (\$) <sup>(3)</sup> | Aggregate Withdrawals/Distributions (\$) <sup>(4)</sup> | Aggregate Balance at Last Fiscal Year End (\$) <sup>(1)</sup> |
|------------------------|-----------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------|
| David P. Steiner       | 229,923                                                         | 40,258                                                           | 890,623                                                    | —                                                       | 4,575,324                                                     |
| James E. Trevathan, Jr | —                                                               | —                                                                | 46,581                                                     | —                                                       | 2,932,356                                                     |
| James C. Fish, Jr.     | —                                                               | —                                                                | 43,882                                                     | —                                                       | 266,655                                                       |
| Jeff M. Harris         | 109,359                                                         | 21,452                                                           | 55,106                                                     | 253,077                                                 | 1,205,355                                                     |
| John J. Morris, Jr.    | 36,681                                                          | 9,073                                                            | 85,413                                                     | —                                                       | 374,790                                                       |

- (1) Contributions are under the Company's Deferral Plan as described in "Compensation Discussion and Analysis — Overview of Elements of Our 2013 Compensation Program — Deferral Plan." In this Proxy Statement as well as in previous years, we include executive contributions to the Deferral Plan in the Base Salary column of the Summary Compensation Table. Aggregate Balance at Last Fiscal Year End includes the following aggregate amounts that were included in the named executives' compensation in the Summary Compensation Table in 2011-2013: Mr. Steiner — \$1,061,498; Mr. Fish — \$118,281; Mr. Harris — \$390,913; and Mr. Morris — \$127,050.
- (2) Company contributions to the executives' Deferral Plan accounts are included in All Other Compensation, but not Base Salary, in the Summary Compensation Table.
- (3) Earnings on these accounts are not included in any other amounts in the tables included in this Proxy Statement, as the amounts of the named executives' earnings represent the general market gains (or losses) on investments, rather than amounts or rates set by the Company for the benefit of the named executives.
- (4) In prior years, including 2013, participants could elect to receive distribution of deferred compensation (i) in a lump sum on a future date on or after termination of employment or retirement or (ii) in annual installments over up to ten years, to begin after any future date or age specified by the employee. The plan was amended and restated effective January 1, 2014, and participating employees can now generally elect to receive distributions commencing six months after the employee leaves the Company in the form of annual installments or a lump sum payment. Special circumstances may allow for a modified or accelerated distribution, such as the employee's death, an unforeseen emergency, or upon termination of the plan. In the event of death, distribution will be made to the designated beneficiary in a single lump sum in the following calendar year. In the event of an unforeseen emergency, the plan administrator may allow an early payment in the amount necessary to satisfy the emergency. All participants are immediately 100% vested in all of their contributions, Company matching contributions, and gains and/or losses related to their investment choices.

### Potential Payments Upon Termination or Change-in-Control

The payments our named executives receive upon termination or change-in-control are based on provisions included in employment agreements and individual equity award agreements. We enter into employment agreements with our named executive officers because they encourage continuity of our leadership team, which is particularly valuable as leadership manages the Company through the change needed to successfully implement our business strategy. Employment agreements also provide a form of protection for the Company through restrictive covenant provisions; each of the agreements contains post-termination restrictive covenants, including a covenant not to compete, non-solicitation covenants, and a non-disparagement covenant, each of which lasts for two years after termination. They also provide the individual with comfort that he will be treated fairly in the event of a termination not for cause or under a change-in-control situation. The change-in-control provision included in each named executive officer's agreement requires a double trigger in order to receive any payment in the event of a change-in-control situation. First, a change-in-control must occur, and second, the individual must terminate his employment for good reason or the Company must terminate his employment without cause within six months prior to or two years following the change-in-control event. We believe providing change-in-control protection encourages our named executives to pursue and facilitate change-in-control transactions that are in the best interests of stockholders while not granting executives an undeserved windfall.

Employment agreements entered into with named executive officers after February 2004 (which includes all named executives except Mr. Steiner) contain (a) a requirement that the individual execute a general release prior to receiving post-termination benefits and (b) a clawback feature that allows for the suspension and refund of

termination benefits for subsequently discovered cause. The clawback feature in the agreements generally allows the Company to cancel any remaining payments due and obligates the named executive to refund to the Company severance payments already made if, within one year of termination of employment of the named executive by the Company for any reason other than for cause, the Company determines that the named executive could have been terminated for cause.

Our current form of award agreements for equity awards also contain provisions regarding termination and change-in-control. Our stock option awards are also subject to double trigger vesting in the event of a change-in-control situation. The award agreements for restricted stock units granted to Messrs. Fish, Harris and Morris provide that restricted stock units vest upon a change-in-control, unless the successor entity converts the awards to equivalent grants in the successor. Provided, however, such converted restricted stock unit awards will vest in full if the executive is involuntarily terminated without cause following the change-in-control. Award agreements applicable to performance share units provide that awards will be paid out in cash on a prorated basis based on actual results achieved through the end of the fiscal quarter prior to a change-in-control. Thereafter, the executive would be compensated for the lost opportunity from the date of the change-in-control to the end of the original performance period by receiving a replacement award of restricted stock units in the successor entity, provided that the successor entity is publicly traded. If the successor is not publicly traded, the executive will be entitled to a replacement award of cash. However, if the employee is thereafter involuntarily terminated other than for cause within the change-in-control window referenced, he would vest in full in the replacement award.

Our current equity award agreements also include a requirement that, in order to be eligible to vest in any portion of the award, the employee must enter into an agreement containing restrictive covenants applicable to the employee's behavior following termination. Additionally, our performance share unit and stock option award agreements include compensation clawback provisions that provide, if the MD&C Committee determines that an employee either engaged in or benefited from misconduct, then the employee will refund any amounts received under the equity award agreements. Misconduct generally includes any act or failure to act that caused or was intended to cause a violation of the Company's policies, generally accepted accounting principles or applicable laws and that materially increased the value of the equity award. Further, our MD&C Committee has adopted a clawback policy applicable to our Annual Incentive Plan awards that is designed to recoup annual cash incentive payments when the recipient's personal misconduct results in a restatement or otherwise affects the payout calculations for the awards. Clawback terms applicable to our incentive awards allow recovery within the earlier to occur of one year after discovery of misconduct and the second anniversary of the employee's termination of employment.

The terms "Cause," "Good Reason," and "Change-in-Control" as used in the table below are defined in the executives' employment agreements and/or the applicable equity award agreement and have the meanings generally described below. You should refer to the individual agreements for the actual definitions.

"Cause" generally means the named executive has:

- deliberately refused to perform his duties;
- breached his duty of loyalty to the Company;
- been convicted of a felony;
- intentionally and materially harmed the Company; or
- breached the covenants contained in his agreement.

"Good Reason" generally means that, without the named executive's consent:

- his duties or responsibilities have been substantially changed;
- he has been removed from his position;
- the Company has breached his employment agreement;
- any successor to the Company has not assumed the obligations under his employment agreement; or
- he has been reassigned to a location more than 50 miles away.

“Change-in-Control” generally means that:

- at least 25% of the Company’s Common Stock has been acquired by one person or persons acting as a group;
- the majority of the Board of Directors consists of individuals other than those serving as of the date of the named executive’s employment agreement or those that were not elected by at least two-thirds of those directors;
- there has been a merger of the Company in which at least 50% of the combined post-merger voting power of the surviving entity does not consist of the Company’s pre-merger voting power, or a merger to effect a recapitalization that resulted in a person or persons acting as a group acquired 25% or more of the Company’s voting securities; or
- the Company is liquidating or selling all or substantially all of its assets.

The following tables represent potential payouts to our named executives upon termination of employment in the circumstances indicated pursuant to the terms of their employment agreements and outstanding incentive awards. In the event a named executive is terminated for cause, he is entitled to any accrued but unpaid salary only. Please see the Non-Qualified Deferred Compensation table above for aggregate balances payable to the named executives under our Deferral Plan pursuant to the executive’s distribution election.

The payouts set forth below assume the triggering event indicated occurred on December 31, 2013, at which time the closing price of our Common Stock was \$44.87 per share. These payouts are determined for SEC disclosure purposes and are not necessarily indicative of the actual amounts the named executive would receive. Please note the following when reviewing the payouts set forth below:

- The compensation component set forth below for accelerated vesting of stock options is comprised of the unvested stock options granted in 2011, 2012, and 2013, which vest 25% on the first and second anniversary of the date of grant and 50% on the third anniversary of the date of grant.
- For purposes of calculating the payout of performance share unit awards outstanding at December 31, 2013, we have assumed that target performance was achieved; any actual performance share unit payouts will be based on actual performance of the Company during the performance period.
- For purposes of calculating the payout upon the “double trigger” of change-in-control and subsequent involuntary termination not for cause, the value of the performance share unit replacement award is equal to the number of performance share units that would be forfeited based on the prorated acceleration of the performance share units, multiplied by the closing price of our Common Stock on December 31, 2013.
- The payout for continuation of benefits is an estimate of the cost the Company would incur to continue those benefits.
- Waste Management’s practice is to provide all benefits eligible employees with life insurance that pays one times annual base salary upon death. The insurance benefit is a payment by an insurance company, not the Company, and is payable under the terms of the insurance policy.

**Potential Consideration upon Termination of Employment:**

***David P. Steiner***

| <u>Triggering Event</u>                                                                                                                                                         | <u>Compensation Component</u>                                                                                                                                              | <u>Payout (\$)</u>       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| <i>Death or Disability</i>                                                                                                                                                      | <b><i>Severance Benefits</i></b>                                                                                                                                           |                          |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 6,130,359                |
|                                                                                                                                                                                 | • Payment of performance share units<br>(contingent on actual performance at end of<br>performance period) . . . . .                                                       | 12,111,131               |
|                                                                                                                                                                                 | • Two times base salary as of date of<br>termination (payable in bi-weekly<br>installments over a two-year period) <sup>(1)</sup> . . . . .                                | 2,322,650                |
|                                                                                                                                                                                 | • Life insurance benefit paid by insurance<br>company (in the case of death) . . . . .                                                                                     | 1,128,000                |
|                                                                                                                                                                                 | <b>Total</b> . . . . .                                                                                                                                                     | <b><u>21,692,140</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee</i>                                                                                          | <b><i>Severance Benefits</i></b>                                                                                                                                           |                          |
|                                                                                                                                                                                 | • Two times base salary plus target annual<br>cash bonus (one-half payable in lump sum;<br>one-half payable in bi-weekly installments<br>over a two-year period) . . . . . | 5,458,228                |
|                                                                                                                                                                                 | • Continued coverage under health and<br>welfare benefit plans for two years . . . . .                                                                                     | 23,040                   |
|                                                                                                                                                                                 | • Prorated payment of performance share<br>units (contingent on actual performance at<br>end of performance period) . . . . .                                              | 6,115,467                |
|                                                                                                                                                                                 | <b>Total</b> . . . . .                                                                                                                                                     | <b><u>11,596,735</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee Six Months<br/>Prior to or Two Years Following a Change-in-<br/>Control (Double Trigger)</i> | <b><i>Severance Benefits</i></b>                                                                                                                                           |                          |
|                                                                                                                                                                                 | • Three times base salary plus target annual<br>cash bonus, paid in lump sum <sup>(1)</sup> . . . . .                                                                      | 8,187,342                |
|                                                                                                                                                                                 | • Continued coverage under health and<br>welfare benefit plans for three years . . . . .                                                                                   | 34,560                   |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 6,130,359                |
|                                                                                                                                                                                 | • Prorated accelerated payment of<br>performance share units . . . . .                                                                                                     | 6,115,467                |
|                                                                                                                                                                                 | • Accelerated payment of performance share<br>units replacement grant . . . . .                                                                                            | 5,995,664                |
|                                                                                                                                                                                 | • Prorated maximum annual cash bonus . . . . .                                                                                                                             | 3,135,578                |
|                                                                                                                                                                                 | • Gross-up payment for any excise taxes <sup>(1)</sup> . . . . .                                                                                                           | 10,766,186               |
|                                                                                                                                                                                 | <b>Total</b> . . . . .                                                                                                                                                     | <b><u>40,365,156</u></b> |



***James E. Trevathan, Jr.***

| <u>Triggering Event</u>                                                                                                                                                         | <u>Compensation Component</u>                                                                                                                                              | <u>Payout (\$)</u>      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <i>Death or Disability</i>                                                                                                                                                      | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 1,726,072               |
|                                                                                                                                                                                 | • Payment of performance share units<br>(contingent on actual performance at end of<br>performance period) . . . . .                                                       | 2,333,778               |
|                                                                                                                                                                                 | • Two times base salary as of the date of<br>termination (payable in bi-weekly<br>installments over a two-year period) <sup>(1)</sup> . . . . .                            | 1,200,000               |
|                                                                                                                                                                                 | • Life insurance benefit paid by insurance<br>company (in the case of death) . . . . .                                                                                     | 567,000                 |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>5,826,850</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee</i>                                                                                          | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Two times base salary plus target annual<br>cash bonus (one-half payable in lump sum;<br>one-half payable in bi-weekly installments<br>over a two-year period) . . . . . | 2,220,000               |
|                                                                                                                                                                                 | • Continued coverage under benefit plans for<br>two years                                                                                                                  |                         |
|                                                                                                                                                                                 | • Health and welfare benefit plans . . . . .                                                                                                                               | 23,040                  |
|                                                                                                                                                                                 | • 401(k) contributions . . . . .                                                                                                                                           | 22,950                  |
|                                                                                                                                                                                 | • Prorated payment of performance share units<br>(contingent on actual performance at end of<br>performance period) . . . . .                                              | 1,147,640               |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>3,413,630</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee Six Months<br/>Prior to or Two Years Following a Change-in-<br/>Control (Double Trigger)</i> | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Two times base salary plus target annual<br>cash bonus, paid in lump sum . . . . .                                                                                       | 2,220,000               |
|                                                                                                                                                                                 | • Continued coverage under benefit plans for<br>two years                                                                                                                  |                         |
|                                                                                                                                                                                 | • Health and welfare benefit plans . . . . .                                                                                                                               | 23,040                  |
|                                                                                                                                                                                 | • 401(k) contributions . . . . .                                                                                                                                           | 22,950                  |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 1,726,072               |
|                                                                                                                                                                                 | • Prorated accelerated payment of performance<br>share units . . . . .                                                                                                     | 1,147,640               |
|                                                                                                                                                                                 | • Accelerated payment of performance share<br>units replacement grant . . . . .                                                                                            | 1,186,138               |
|                                                                                                                                                                                 | • Prorated maximum annual cash bonus . . . . .                                                                                                                             | 1,020,000               |
|                                                                                                                                                                                 | • Gross-up payment for any excise taxes <sup>(1)</sup> . . .                                                                                                               | 2,174,166               |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>9,520,006</u></b> |

***James C. Fish, Jr.***

| <b><u>Triggering Event</u></b>                                                                                                                                     | <b><u>Compensation Component</u></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b><u>Payout (\$)</u></b>                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Death or Disability</i>                                                                                                                                         | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Accelerated vesting of stock options . . . . .</li><li>• Payment of performance share units (contingent on actual performance at end of performance period) . . . . .</li><li>• Accelerated vesting of restricted stock units . . . . .</li><li>• Life insurance benefit paid by insurance company (in the case of death) . . . . .</li></ul> <b>Total . . . . .</b>                                                                                                                                                                                                                                                                            | <ul style="list-style-type: none"><li>1,195,490</li><li>2,035,348</li><li>197,966</li><li>500,000</li></ul> <b><u>3,928,804</u></b>                                                  |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i>                                                                                 | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Two times base salary plus target annual cash bonus (one-half payable in lump sum; one-half payable in bi-weekly installments over a two-year period) . . . . .</li><li>• Continued coverage under health and welfare benefit plans for two years . . . . .</li><li>• Prorated payment of performance share units (contingent on actual performance at end of performance period) . . . . .</li><li>• Prorated vesting of restricted stock units . . . . .</li></ul> <b>Total . . . . .</b>                                                                                                                                                     | <ul style="list-style-type: none"><li>1,905,500</li><li>23,040</li><li>975,653</li><li>92,567</li></ul> <b><u>2,996,760</u></b>                                                      |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change-in-Control (Double Trigger)</i> | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Two times base salary plus target annual cash bonus (one-half payable in lump sum; one-half payable in bi-weekly installments over a two-year period) . . . . .</li><li>• Continued coverage under health and welfare benefit plans for two years . . . . .</li><li>• Accelerated vesting of stock options . . . . .</li><li>• Prorated accelerated payment of performance share units . . . . .</li><li>• Accelerated payment of performance share units replacement grant . . . . .</li><li>• Accelerated vesting of restricted stock units . . . . .</li><li>• Prorated maximum annual cash bonus . . . . .</li></ul> <b>Total . . . . .</b> | <ul style="list-style-type: none"><li>1,905,500</li><li>23,040</li><li>1,195,490</li><li>975,653</li><li>1,059,695</li><li>197,966</li><li>875,500</li></ul> <b><u>6,232,844</u></b> |

**Jeff M. Harris**

| <u>Triggering Event</u>                                                                                                                                            | <u>Compensation Component</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <u>Payout (\$)</u>                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Death or Disability</i>                                                                                                                                         | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Accelerated vesting of stock options . . . . .</li><li>• Payment of performance share units (contingent on actual performance at end of performance period) . . . . .</li><li>• Accelerated payment of restricted stock units . . . . .</li><li>• Life insurance benefit paid by insurance company (in the case of death) . . . . .</li></ul> <b>Total . . . . .</b>                                                                                                                                                                                                              | <ul style="list-style-type: none"><li>1,053,936</li><li>1,937,128</li><li>271,957</li><li>537,000</li></ul> <b><u>3,800,021</u></b>                                                |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee</i>                                                                                 | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Two times base salary plus target annual cash bonus (one-half payable in lump sum; one-half payable in bi-weekly installments over a two-year period) . . . . .</li><li>• Continued coverage under health and welfare benefit plans for two years . . . . .</li><li>• Prorated payment of performance share units (contingent on actual performance at end of performance period) . . . . .</li><li>• Prorated vesting of restricted stock units . . . . .</li></ul> <b>Total . . . . .</b>                                                                                       | <ul style="list-style-type: none"><li>1,933,281</li><li>23,040</li><li>942,898</li><li>104,547</li></ul> <b><u>3,003,766</u></b>                                                   |
| <i>Termination Without Cause by the Company or For Good Reason by the Employee Six Months Prior to or Two Years Following a Change-in-Control (Double Trigger)</i> | <b><i>Severance Benefits</i></b> <ul style="list-style-type: none"><li>• Three times base salary plus target annual cash bonus, paid in lump sum<sup>(1)</sup> . . . . .</li><li>• Continued coverage under health and welfare benefit plans for three years . . . . .</li><li>• Accelerated vesting of stock options . . . . .</li><li>• Prorated accelerated payment of performance share units . . . . .</li><li>• Accelerated payment of performance share units replacement grant . . . . .</li><li>• Accelerated vesting of restricted stock units . . . . .</li><li>• Prorated maximum annual cash bonus . . . . .</li></ul> <b>Total . . . . .</b> | <ul style="list-style-type: none"><li>2,899,922</li><li>34,560</li><li>1,053,936</li><li>942,898</li><li>994,230</li><li>271,957</li><li>828,549</li></ul> <b><u>7,026,052</u></b> |

***John J. Morris, Jr.***

| <u>Triggering Event</u>                                                                                                                                                         | <u>Compensation Component</u>                                                                                                                                              | <u>Payout (\$)</u>      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| <i>Death or Disability</i>                                                                                                                                                      | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 482,794                 |
|                                                                                                                                                                                 | • Payment of performance share units<br>(contingent on actual performance at end of<br>performance period) . . . . .                                                       | 1,107,930               |
|                                                                                                                                                                                 | • Accelerated vesting of restricted stock units . . .                                                                                                                      | 543,869                 |
|                                                                                                                                                                                 | • Life insurance benefit paid by insurance<br>company (in the case of death) . . . . .                                                                                     | 320,000                 |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>2,454,593</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee</i>                                                                                          | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Two times base salary plus target annual<br>cash bonus (one-half payable in lump sum;<br>one-half payable in bi-weekly installments<br>over a two-year period) . . . . . | 1,662,500               |
|                                                                                                                                                                                 | • Continued coverage under health and welfare<br>benefit plans for two years . . . . .                                                                                     | 23,040                  |
|                                                                                                                                                                                 | • Prorated payment of performance share units<br>(contingent on actual performance at end of<br>performance period) . . . . .                                              | 455,027                 |
|                                                                                                                                                                                 | • Prorated vesting of restricted stock units . . . .                                                                                                                       | 209,094                 |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>2,349,661</u></b> |
| <i>Termination Without Cause by the Company or<br/>For Good Reason by the Employee Six Months<br/>Prior to or Two Years Following a Change-in-<br/>Control (Double Trigger)</i> | <b><i>Severance Benefits</i></b>                                                                                                                                           |                         |
|                                                                                                                                                                                 | • Two times base salary plus target annual<br>cash bonus (one half payable in lump sum;<br>one half payable in bi-weekly installments<br>over a two year period) . . . . . | 1,662,500               |
|                                                                                                                                                                                 | • Continued coverage under health and wealth<br>benefit plans for two years . . . . .                                                                                      | 23,040                  |
|                                                                                                                                                                                 | • Accelerated vesting of stock options . . . . .                                                                                                                           | 482,794                 |
|                                                                                                                                                                                 | • Prorated accelerated payment of performance<br>share units . . . . .                                                                                                     | 455,027                 |
|                                                                                                                                                                                 | • Accelerated payment of performance share<br>units replacement grant . . . . .                                                                                            | 652,903                 |
|                                                                                                                                                                                 | • Accelerated vesting of restricted stock units . . .                                                                                                                      | 543,869                 |
|                                                                                                                                                                                 | • Prorated maximum annual cash bonus . . . . .                                                                                                                             | 712,500                 |
|                                                                                                                                                                                 | <b>Total . . . . .</b>                                                                                                                                                     | <b><u>4,532,633</u></b> |

(1) In the past, such provisions have been included in certain named executives' employment agreements. However, the Company's compensation policy now provides that it will not enter into any future compensation arrangements that obligate the Company to provide increased payments in the event of death or to make tax gross up payments, subject to certain exceptions. Additionally, our Executive Officer Severance Policy generally provides that the Company may not enter into new severance arrangements with its executive officers that provide for benefits, less the value of vested equity awards and benefits provided to employees generally, in an amount that exceeds 2.99 times the executive officer's then current base salary and target bonus. For additional details, see "Compensation Discussion and Analysis — Other Compensation Policies and Practices."

## Equity Compensation Plan Table

The following table provides information as of December 31, 2013 about the number of shares to be issued upon vesting or exercise of equity awards and the number of shares remaining available for issuance under our equity compensation plans.

| Plan Category                                                             | Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights | Weighted-Average Exercise Price of Outstanding Options and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders <sup>(a)</sup>     | 14,141,265 <sup>(b)</sup>                                                         | \$35.99 <sup>(c)</sup>                                            | 5,914,001 <sup>(d)</sup>                                                                     |
| Equity compensation plans not approved by security holders <sup>(e)</sup> | 16,850 <sup>(f)</sup>                                                             | \$29.24                                                           | —                                                                                            |
| Total                                                                     | 14,158,115                                                                        | \$35.98                                                           | 5,914,001                                                                                    |

- (a) Includes our 2000 Stock Incentive Plan, 2004 Stock Incentive Plan and 2009 Stock Incentive Plan. Only our 2009 Stock Incentive Plan is available for awards. Also includes our Employee Stock Purchase Plan (ESPP).
- (b) Includes: options outstanding for 9,657,869 shares of Common Stock; 296,975 shares of Common Stock to be issued in connection with deferred compensation obligations; 534,843 shares underlying unvested restricted stock units and up to 3,651,578 shares of Common Stock that may be issued under unearned performance share units. In determining the number of shares of Common Stock that may be issued on account of performance share units, we assumed the maximum performance level was achievable, which would result in a payout in shares of Common Stock equal to two times the number of performance share units granted. This number includes 633,328 shares on account of performance share units with the performance period ended December 31, 2013. The determination of achievement of performance results and corresponding vesting of performance share units with the performance period ended December 31, 2013 was performed by the MD&C Committee in February 2014; as a result, 106,140 shares of Common Stock included in this number were issued in February 2014, net of units deferred, and 496,443 shares included in this number will be available for future issuance. Excludes purchase rights that accrue under the ESPP. Purchase rights under the ESPP are considered equity compensation for accounting purposes; however, the number of shares to be purchased is indeterminable until the time shares are actually issued, as automatic employee contributions may be terminated before the end of an offering period and, due to the look-back pricing feature, the purchase price and corresponding number of shares to be purchased is unknown.
- (c) Excludes performance share units and restricted stock units because those awards do not have exercise prices associated with them. Also excludes purchase rights under the ESPP for the reasons described in (b) above.
- (d) The shares remaining available include 4,186,419 shares under our 2009 Stock Incentive Plan and 1,727,582 shares under our ESPP. No additional shares may be issued under any of the other plans approved by stockholders, other than on account of awards already outstanding.
- (e) Includes our 2000 Broad-Based Employee Plan. No awards under the Broad-Based Plan are held by, or may be granted to, any of our directors or executive officers. The Broad-Based Plan allows for the granting of equity awards on such terms and conditions as the MD&C Committee may decide; provided that, the exercise price of options may not be less than 100% of the fair market value of the stock on the date of grant, and all options expire no later than ten years from the date of grant.
- (f) Includes options exercisable for shares of Common Stock.

# RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## (ITEM 2 ON THE PROXY CARD)

Our Board of Directors, upon the recommendation of the Audit Committee, has ratified the selection of Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal year 2014, subject to ratification by our stockholders.

Representatives of Ernst & Young LLP will be at the annual meeting. They will be able to make a statement if they want, and will be available to answer any appropriate questions stockholders may have.

Although ratification of the selection of Ernst & Young is not required by our By-laws or otherwise, we are submitting the selection to stockholders for ratification because we value our stockholders' views on our independent registered public accounting firm and as a matter of good governance. If our stockholders do not ratify our selection, it will be considered a direction to our Board and Audit Committee to consider selecting another firm. Even if the selection is ratified, the Audit Committee may, in its discretion, select a different independent registered public accounting firm, subject to ratification by the Board, at any time during the year if it determines that such a change is in the best interests of the Company and our stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.**

### Independent Registered Public Accounting Firm Fee Information

Fees for professional services provided by our independent registered public accounting firm in each of the last two fiscal years, in each of the following categories, were as follows:

|                          | 2013          | 2012  |
|--------------------------|---------------|-------|
|                          | (In millions) |       |
| Audit Fees .....         | \$5.7         | \$6.0 |
| Audit-Related Fees ..... | 0.7           | 1.1   |
| Tax Fees .....           | —             | —     |
| All Other Fees .....     | —             | —     |
| Total .....              | \$6.4         | \$7.1 |

Audit includes fees for the annual audit, reviews of the Company's Quarterly Reports on Form 10-Q, work performed to support the Company's debt issuances, accounting consultations, and separate subsidiary audits required by statute or regulation, both domestically and internationally. Audit-related fees principally include separate subsidiary audits not required by statute or regulation, employee benefit plan audits and financial due diligence services relating to certain potential acquisitions.

The Audit Committee has adopted procedures for the approval of Ernst & Young's services and related fees. At the beginning of each year, all audit and audit-related services, tax fees and other fees for the upcoming audit are provided to the Audit Committee for approval. The services are grouped into significant categories and provided to the Audit Committee in the format shown above. All projects that have the potential to exceed \$100,000 are separately identified and reported to the Committee for approval. The Audit Committee Chairman has the authority to approve additional services, not previously approved, between Committee meetings. Any additional services approved by the Audit Committee Chairman between Committee meetings are ratified by the full Audit Committee at the next regularly scheduled meeting. The Audit Committee is updated on the status of all services and related fees at every regular meeting. In 2013 and 2012, the Audit Committee pre-approved all audit and audit-related services performed by Ernst & Young.

As set forth in the Audit Committee Report on page 7, the Audit Committee has considered whether the provision of these audit-related services is compatible with maintaining auditor independence and has determined that it is.

### Vote Required for Approval

Approval of this proposal requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote.

## ADVISORY VOTE ON EXECUTIVE COMPENSATION

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### (ITEM 3 ON THE PROXY CARD)

Pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, stockholders are entitled to an advisory (non-binding) vote on compensation programs for our named executive officers (sometimes referred to as “say on pay”). The Board of Directors has determined that it will include say on pay votes in the Company’s proxy materials annually until the next stockholder vote on the frequency of the say on pay vote.

We encourage stockholders to review the Compensation Discussion and Analysis on pages 22 to 37 of this Proxy Statement. The Company has designed its executive compensation program to be supportive of, and align with, the strategy of the Company and the creation of stockholder value, while discouraging excessive risk-taking. The following key structural elements and policies, discussed in more detail in the Compensation Discussion and Analysis, further the objective of our executive compensation program and evidence our dedication to competitive and reasonable compensation practices that are in the best interests of stockholders:

- a substantial portion of executive compensation is linked to Company performance, through annual cash incentive performance criteria and long-term equity-based incentive awards. As a result, our executive compensation program provides for a significant difference in total compensation in periods of above-target Company performance as compared to periods of below-target Company performance. In 2013, our performance-based annual cash incentive and long-term equity-based incentive awards comprised approximately 87% of total target compensation for our President and Chief Executive Officer and approximately 74% of total target compensation for our other currently-serving named executives;
- performance-based awards include threshold, target and maximum payouts correlating to a range of performance goals that are designed to be challenging, yet achievable, and are based on a variety of indicators of performance goals, which limits risk-taking behavior;
- our compensation mix targets approximately 50% of total compensation of our named executives (and approximately 70% in the case of our President and Chief Executive Officer) to result from long-term equity awards, which aligns executives’ interests with those of stockholders;
- performance stock units’ three-year performance period, as well as stock options’ vesting over a three-year period, link executives’ interests with long-term performance and reduce incentives to maximize performance in any one year;
- all of our named executive officers are subject to stock ownership requirements, which we believe demonstrates a commitment to, and confidence in, the Company’s long-term prospects;
- the Company has clawback provisions in its equity award agreements and recent employment agreements, as well as a general clawback policy designed to recoup compensation in certain cases when cause and/or misconduct are found;
- our executive officer severance policy implemented a limitation on the amount of benefits the Company may provide to its executive officers under severance agreements entered into after the date of such policy; and
- the Company has adopted a policy that prohibits it from entering into new agreements with executive officers that provide for certain death benefits or tax gross-up payments.

The Board strongly endorses the Company's executive compensation program and recommends that the stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve the compensation of the Company's named executive officers as described in this Proxy Statement under "Executive Compensation," including the Compensation Discussion and Analysis and the tabular and narrative disclosure contained in this Proxy Statement.

**Vote Required for Approval**

Approval of this proposal requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote. Because the vote is advisory, it will not be binding upon the Board or the MD&C Committee and neither the Board nor the MD&C Committee will be required to take any action as a result of the outcome of the vote on this proposal. The MD&C Committee will carefully consider the outcome of the vote in connection with future executive compensation arrangements.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE COMPANY'S EXECUTIVE COMPENSATION.**



## **PROPOSAL TO APPROVE THE COMPANY'S 2014 STOCK INCENTIVE PLAN**

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**(ITEM 4 ON THE PROXY CARD)**

Stockholders are asked to consider and vote upon a proposal to approve the Company's 2014 Stock Incentive Plan, which we refer to as the 2014 Plan. Upon the recommendation of the MD&C Committee, the Board of Directors approved the 2014 Plan, subject to receipt of stockholder approval at our 2014 Annual Meeting. The Board believes that approval of the 2014 Plan is in the best interests of the Company and its stockholders.

### **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE 2014 STOCK INCENTIVE PLAN.**

As discussed in our Compensation Discussion and Analysis beginning on page 22, performance-based pay elements, including equity-based awards, are key components of our overall compensation program. As of December 31, 2013, approximately 4.2 million shares remained available for issuance with respect to future awards under our existing equity-based compensation plans. The 2014 Plan is designed to allow the Company to continue to attract and retain highly-qualified persons to serve as officers, non-employee directors, key employees and consultants of the Company and to align their interests more closely with the interests of the Company's stockholders, as well as provide incentives and reward opportunities designed to enhance the profitable growth of the Company by providing for additional shares of Common Stock to be available for such awards.

In addition, as described below, under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), we generally are prohibited from deducting compensation paid to our principal executive officer and our three other most highly compensated executive officers (other than our principal financial officer) in excess of \$1 million per person in any year. However, the Section 162(m) deduction limit does not apply to qualified "performance-based compensation" that is established by an independent compensation committee and adequately disclosed to, and approved by, a majority vote of our stockholders, generally at least once every five years. By approving the 2014 Plan, stockholders also will be approving the material terms of the performance goals under the 2014 Plan for purposes of ensuring the Company's ability to grant "performance based compensation" awards under Code Section 162(m). The material terms of the performance goals for the 2014 Plan are disclosed below.

### **Certain Features of the 2014 Plan**

The following features of the 2014 Plan are designed to reinforce the alignment between equity compensation arrangements and stockholders' interests:

***No Discounting of Stock Options.*** The 2014 Plan prohibits the granting of stock options and stock appreciation rights with an exercise price less than the fair market value of our Common Stock on the date of grant.

***No Repricing or Replacement of Underwater Stock Options.*** The 2014 Plan prohibits, without stockholder approval, actions to amend any outstanding option award to lower the exercise price, cancel and replace any outstanding option award with an option award having a lower exercise price or repurchase any option at any time when the fair market value of the Common Stock is less than the option exercise price.

***Limitation on Terms of Stock Options.*** The maximum term of each stock option is ten years.

**Minimum Vesting Period.** The 2014 Plan provides for minimum vesting periods of at least three years (with pro rata vesting over such period permitted) for time-based grants and one year for performance-based grants, subject in each case to an exception for up to 5% of the total shares authorized for issuance under the 2014 Plan for which our Board of Directors may retain discretion.

**No Waiver or Acceleration of Vesting Periods.** Authority to accelerate the exercisability or vesting or otherwise terminate restrictions related to an award under the 2014 Plan may be exercised only in connection with a participant's death, disability, or retirement; in connection with a Corporate Change (as defined below); upon certain dispositions; and subject to an exception for up to 5% of the total shares authorized for issuance under the 2014 Plan for which our Board of Directors may retain discretion.

**No Dividends on Unearned Performance Awards.** The 2014 Plan prohibits payment of dividends or dividend equivalents on performance-based awards until the performance conditions have been satisfied, although dividends and dividend equivalents may accrue subject to satisfaction of such performance conditions.

**No Liberal Definition of "Change in Control."** No corporate change or change in control would be triggered solely by stockholder approval of a business combination transaction.

**Clawback.** Awards granted under the 2014 Plan are subject to a clawback or other recovery by the Company to the extent necessary to comply with applicable law including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any Securities and Exchange Commission rule. In line with current practice, the MD&C Committee, in its discretion, may also specify clawback and/or recovery provisions in award agreements under the 2014 Plan.

**Code Section 162(m) Eligibility.** Provides flexibility to grant awards under the 2014 Plan that are intended to qualify as "performance-based compensation" under Code Section 162(m).

### **Effect of Proposal on Existing Incentive Compensation Plans**

The Company has outstanding equity-based compensation awards under its 2000 Stock Incentive Plan, 2004 Stock Incentive Plan and 2009 Stock Incentive Plan. Only our 2009 Stock Incentive Plan (the "2009 Plan") is currently available for making additional equity-based grants. If stockholders do not approve the 2014 Plan, then the 2009 Plan will remain in effect in accordance with its terms. However, there will be insufficient shares available under the 2009 Plan to make annual awards and to provide grants to new hires in the coming years. In this event, the MD&C Committee would be required to significantly revise its compensation philosophy and devise other programs to attract, retain and compensate its employees and non-employee directors.

### **Determination of Maximum Aggregate Authorized Shares**

In determining the maximum aggregate number of authorized shares under the 2014 Plan for which stockholder approval is being sought, the MD&C Committee considered a number of factors, including:

**Number of Eligible Employees.** Based on current equity award granting practices, grants would be limited to approximately 800 employees (including executive officers) and non-employee directors under the 2014 Plan.

**Historical Amounts of Equity Awards.** Our three-year annual number of shares granted, calculated on our understanding of the methodology utilized by the Proxy Advisory Services division of Institutional Shareholder Services, Inc. ("ISS"), was approximately 4.554 million shares in 2013, 3.021 million shares in 2012, and 9.825 million shares in 2011. However, these amounts are not necessarily indicative of the shares that might be awarded in future years under the 2014 Plan.

**Historical Equity Award Burn Rate.** Our three-year average annual equity grant rate, or “burn rate,” for the 2011-2013 period, calculated on our understanding of the methodology utilized by ISS, was 1.24%, which was lower than ISS’s maximum burn rate guidance of 4.37% for our industry classification.

**Current and Projected Overhang Percentage.** As of December 31, 2013, we had 16.532 million shares of Common Stock subject to outstanding equity awards or available for future equity awards under our equity compensation plans, which represented approximately 3.27% of fully diluted common shares outstanding, calculated on our understanding of the methodology utilized by ISS. The 23.8 million new shares proposed to be included in the 2014 Plan share reserve would increase the overhang percentage by an additional 4.71% to approximately 7.98%.

**Anticipated Duration.** If we continue making equity awards consistent with our practices over the past three years as set forth above, we estimate that the shares available for future awards, including the 23.8 million additional shares if the 2014 Plan is approved, will be sufficient for 2014 Plan awards for at least three years. However, the three-year estimate provided in the preceding sentence is provided for illustrative purposes only and the MD&C Committee retains the discretion to change its grant practices, subject to the limits set forth in the 2014 Plan.

### **Summary of Principal Features of the 2014 Plan**

The principal features of the 2014 Plan are summarized below. The following summary of the 2014 Plan does not purport to be a complete description of all of the provisions of the 2014 Plan. It is qualified in its entirety by reference to the complete text of the 2014 Plan, which is attached to this Proxy Statement as Annex A.

**Eligibility.** Awards may be granted under the 2014 Plan only to persons who, at the time of grant, are employees, consultants, or directors of the Company or its affiliates. Incentive stock options may be granted only to employees of the Company or its subsidiaries. As of March 17, 2014, approximately 42,700 employees, including 14 executive officers and seven non-employee directors would be eligible to receive grants under the 2014 Plan. However, under the Company’s current equity award granting practices, grants would be limited to approximately 800 employees (including executive officers) and non-employee directors. Under the 2014 Plan, consultants would also be eligible to receive grants; however, it has not been our practice, and it is not our current intention to grant equity awards to non-employee consultants.

**Administration.** The 2014 Plan may be administered by the MD&C Committee or by such other committee comprised of two or more non-employee directors appointed by the Board to administer the 2014 Plan (the MD&C Committee, or such other duly appointed committee, referred to for purposes of this proposal as the “MD&C Committee”). Subject to the terms of the 2014 Plan, the MD&C Committee shall have total and exclusive responsibility to control, operate, manage and administer the 2014 Plan in accordance with its terms, including, without limitation, selecting the individuals to whom awards may be granted, the time or times at which such awards are granted, and the terms of such awards. The 2014 Plan generally gives the MD&C Committee broad authority, subject to the terms of the 2014 Plan, to enable it to discharge its responsibilities with respect to the 2014 Plan and, subject to certain limitations, delegate such authority to certain of our officers. However, authority to accelerate the exercisability or vesting or otherwise terminate restrictions related to an award under the 2014 Plan may be exercised only in connection with a participant’s death, disability, or retirement; in connection with a Corporate Change (as defined below); upon certain dispositions; and or to the extent such actions involve an aggregate number of shares of Common Stock not in excess of 5% of the total shares authorized for issuance under the 2014 Plan.

**Number of Authorized Shares.** The aggregate maximum number of shares of Common Stock that may be issued under the 2014 Plan, and the aggregate maximum number of shares of Common Stock that may be issued under the 2014 Plan through Incentive Stock Options, shall not exceed 23,800,000, plus (a) any shares remaining available for issuance under the 2009 Plan as of the date the 2014 Plan becomes effective and (b) any shares of

Common Stock subject to outstanding awards under the 2009 Plan that are subsequently canceled or forfeited, or terminate, expire or lapse for any reason or any shares of Common Stock that otherwise subsequently become available under the 2009 Plan. In the discretion of the MD&C Committee, the shares of Common Stock issuable under the 2014 Plan will consist of authorized and unissued shares or shares now held or subsequently acquired by the Company as treasury shares. As of March 17, 2014, a total of approximately 465,192,040 shares of Common Stock were outstanding.

Shares shall be deemed to have been issued under the 2014 Plan only to the extent actually issued and delivered pursuant to an award. To the extent that an award lapses or the rights of its holder terminate, any shares of Common Stock subject to such award shall again be available for the grant of an award under the 2014 Plan. In addition, shares issued under the 2014 Plan and forfeited back to the 2014 Plan, shares surrendered in payment of the exercise price or purchase price of an award, and shares withheld for payment of applicable employment taxes and/or withholding obligations associated with an award shall again be available for the grant of an award under the 2014 Plan. In addition, the number of shares authorized under the plan is subject to adjustment in the case of corporate events such as recapitalizations, stock splits and stock dividends, as described below.

***Per Participant Limitations.*** Subject to certain adjustments for reorganization and recapitalization as set forth in the 2014 Plan, (i) the maximum number of shares of Common Stock that may be subject to awards denominated in shares of Common Stock granted to any one individual during any calendar year may not exceed 1,500,000 shares and (ii) the maximum amount of compensation that may be paid under all performance awards denominated in cash (including the fair market value of any shares of Common Stock paid in satisfaction of such performance awards) granted to any one individual during any calendar year may not exceed \$7,000,000.

***Limits on Awards to Non-Employee Directors.*** The aggregate grant date fair value (computed in accordance with applicable accounting rules) of all awards granted to any non-employee director during any calendar year shall not exceed \$500,000.

***Adjustments for Capital Structure Changes.*** If the Company recapitalizes, reclassifies its capital stock, otherwise changes its capital structure, effects a subdivision or consolidation of shares of Common Stock or pays a stock dividend on Common Stock without receipt of consideration by the Company, the number and class of shares of Common Stock or other property covered by an award and the purchase price per share of Common Stock or other consideration subject to such award shall be equitably adjusted as set forth in the 2014 Plan. In addition, the MD&C Committee may, at its discretion, make adjustments to awards upon certain other non-ordinary distributions or changes in capitalization.

***Minimum Vesting Period.*** Restricted stock awards and phantom stock awards that vest as a result of the passage of time and continued service by the participant are subject to a minimum vesting period of three years from the date of grant (but with permissible pro rata vesting over such period). Awards whose vesting is subject to the achievement of specified performance criteria over a performance period shall be subject to a minimum performance period of one year. Notwithstanding the foregoing, such minimum vesting periods shall not apply (i) to terminations of employment due to death, disability or retirement, (ii) upon a change in control of the company, (iii) to substitute awards (not reducing the vesting periods of the Awards being replaced) and (iv) to Awards involving an aggregate number of shares of Common Stock not in excess of 5% of the total shares authorized for issuance under the 2014 Plan.

***No Repricing or Repurchase of Underwater Options.*** The MD&C Committee may not, without approval of the stockholders of the Company, amend any outstanding option agreement to lower the exercise or grant price of a stock option, cancel and replace any outstanding option agreement with an option agreement having a lower exercise or grant price, or repurchase any option at a time when the fair market value of the Common Stock is less than the exercise or grant price, except in each case, in the event of a reorganization or recapitalization event, as set forth in the 2014 Plan.

**Clawback.** All cash and equity awards granted under the 2014 Plan will be subject to the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the recovery of compensation, any implementing rules and regulations under such act, any policies adopted by the Company to implement such requirements, and any other compensation recovery policies as may be adopted from time to time by the Company and contained in award agreements for grants under the 2014 Plan.

**Transferability.** Awards are generally not transferable other than (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, or (iii) with the consent of the MD&C Committee.

## **Types of Awards**

The 2014 Plan permits the granting of any or all of the following types of awards:

**Stock Options.** Stock options entitle the holder to purchase a specified number of shares of Common Stock at a specified price (the exercise price), subject to the terms and conditions of the stock option grant. The MD&C Committee may grant either incentive stock options, which must comply with Code Section 422, or nonqualified stock options. The MD&C Committee sets exercise prices and terms, except that stock options must be granted with an exercise price not less than 100% of the fair market value of the Common Stock on the date of grant. In addition, if the recipient of an incentive stock option is a 10% or greater stockholder, the exercise price for the incentive stock option may not be less than 110% of the fair market value on the date of grant. Fair market value generally means, as of a given date, the average of the highest and lowest sales price per share of such Common Stock on the New York Stock Exchange. At the time of grant, the MD&C Committee determines the terms and conditions of stock options, including the quantity, exercise price, vesting and forfeiture conditions, term (which cannot exceed ten years) and other conditions on exercise.

**Stock Appreciation Rights.** The MD&C Committee may grant stock appreciation rights, or SARs, as a right in tandem with the number of shares underlying stock options granted under the 2014 Plan or as a freestanding award. Upon exercise, SARs entitle the holder to receive payment per share in stock or cash, or in a combination of stock and cash, as determined by the MD&C Committee, equal to the excess of the share's fair market value on the date of exercise over the grant price of the SAR. The grant price of a tandem SAR is equal to the exercise price of the related stock option and the grant price for a freestanding SAR is determined by the MD&C Committee in accordance with the procedures described above for stock options. Exercise of an SAR issued in tandem with a stock option will reduce the number of shares underlying the related stock option to the extent of the SAR exercised. At the time of grant, the MD&C Committee determines the terms and conditions of SARs, including the quantity, grant price, vesting and forfeiture conditions, term and other conditions on exercise.

**Restricted Stock, Phantom Stock Awards (including Restricted Stock Units) and Other Stock-Based Awards.** The MD&C Committee may grant awards of restricted stock, which are shares of Common Stock subject to specified restrictions, and phantom stock awards, which represent the right to receive shares of the Common Stock in the future or an amount equal to any appreciation in the fair market value of the Common Stock over a specified period of time. These awards may be made subject to repurchase, forfeiture or vesting restrictions at the MD&C Committee's discretion. The restrictions may be based on continuous service with the Company or the attainment of specified performance goals, as determined by the MD&C Committee. Aside from the risk of forfeiture and non-transferability, an award of restricted stock may entitle the participant to the rights of a stockholder, including the right to vote the shares and to receive dividends, which dividends could be either forfeitable or non-forfeitable. Phantom stock awards may be paid in stock or cash or a combination of stock and cash, as determined by the MD&C Committee, and may include dividend equivalent rights; provided, however, with respect to performance-based awards and time-vested phantom stock awards, dividends and dividend equivalents may only be paid after the applicable vesting period and performance period on awards earned.



The MD&C Committee may also grant other types of equity or equity-based awards subject to the terms of the 2014 Plan, and any other terms and conditions determined by the MD&C Committee, including bonus stock awards that are not required to be subject to performance criteria, forfeiture or vesting restrictions.

**Performance Awards.** The MD&C Committee may grant performance awards, which entitle participants to receive a payment from the Company, the amount of which is based on the attainment of performance goals established by the MD&C Committee over a specified period of time. Performance awards may be denominated in shares of Common Stock or in cash, and may be paid in stock or cash or a combination of stock and cash, as determined by the MD&C Committee. Under the 2014 Plan, the MD&C Committee may grant performance awards either intended or not intended to qualify as “performance-based compensation” under Code Section 162(m).

### **Performance-Based Compensation under Section 162(m)**

**Performance Goals and Criteria.** Under Code Section 162(m), we generally are prohibited from deducting compensation paid to our principal executive officer and our three other most highly compensated executive officers (other than our principal financial officer) in excess of \$1 million per person in any year. The Section 162(m) deduction limit does not apply to qualified “performance-based compensation” that is established by an independent compensation committee and adequately disclosed to, and approved by, stockholders. In particular, stock options and SARs satisfy the performance-based requirement only if the maximum number of shares of Common Stock subject to such awards that can be granted to any particular participant within a specified period is limited under the 2014 Plan, and the compensation is based solely on an increase in the stock price after the grant date (i.e., the option exercise price is equal to or greater than the fair market value of the stock subject to the award on the grant date).

If the MD&C Committee intends to qualify a performance award under the 2014 Plan as “performance-based” compensation under Code Section 162(m), the performance goals may be one or more performance measures established by the MD&C Committee that are based on (i) the price of a share of Common Stock, (ii) earnings per share, (iii) market share, (iv) revenues or sales, (v) operating income or operating income margin, (vi) net income or net income margin (before or after taxes), (vii) cash flow or return on investment, (viii) earnings or earnings margin before or after interest, taxes, depreciation, and/or amortization, (ix) economic value added, (x) return on capital, assets, or stockholders’ equity, (xi) debt level or debt reduction, (xii) cost reduction targets, (xiii) total stockholders’ return, or (xiv) any combination of the foregoing. The performance measures described in the preceding sentence may be absolute, relative to one or more other companies, relative to one or more indexes, or measured by reference to the Company alone, one or more business units or affiliates of the Company alone, or the Company together with one or more of its business units or affiliates. On the other hand, if a Performance Award is not intended to be qualified performance-based compensation under Code Section 162(m), the MD&C Committee has discretion to establish an appropriate performance measure. Our MD&C Committee will determine in its sole discretion whether all or any portion of a performance award is intended to satisfy the requirements for “performance-based” compensation under Code Section 162(m).

In addition, subject to any limitations under Code Section 162(m), such performance measures may be subject to adjustment by the MD&C Committee for changes in accounting principles, to satisfy regulatory requirements and other specified significant extraordinary items or events.

### **Effect of a Corporate Change**

In the event of a Corporate Change (as defined below), the MD&C Committee shall, in connection with such Corporate Change, take one of the following actions with respect to outstanding awards under the 2014 plan (which may vary among participants and awards), which such actions may be taken without the consent of any participant or holder of an award: (i) accelerate the time at which stock options or SARs then outstanding may be exercised so that such awards may be exercised in full for a limited period of time on or before a specified date

(before or after such Corporate Change) fixed by the MD&C Committee, after which specified date all such unexercised awards and all rights of participants thereunder shall terminate; (ii) require the mandatory surrender to the Company by all or selected participants of some or all of the outstanding stock options or SARs held by such participants (irrespective of whether such awards are then exercisable under the provisions of the 2014 Plan) as of a date, before or after such Corporate Change, specified by the MD&C Committee, in which event the MD&C Committee shall thereupon cancel such awards and the Company shall pay (or cause to be paid) to each participant an amount of cash per share equal to the excess, if any, of Change of Control Value (as defined in the 2014 Plan) of the shares subject to such awards over the exercise price(s) under such awards for such shares; or (iii) make such adjustments in the number and type of shares (or other securities or property) subject to outstanding awards as the MD&C Committee deems appropriate to reflect such Corporate Change and prevent the dilution or enlargement of rights, including, without limitation, adjusting such an award to provide that the number and class of shares of Common Stock covered by such award shall be adjusted so that such award shall thereafter cover securities of the surviving or acquiring corporation or other property (including, without limitation, cash) as determined by the MD&C Committee in its sole discretion.

The 2014 Plan deems a “Corporate Change” to have occurred if (i) the Company shall not be the surviving entity in any consummated merger, consolidation or other business combination or reorganization (or survives only as a subsidiary of an entity), (ii) the Company sells, leases, or exchanges all or substantially all of its assets to any other person or entity, (iii) the Company is dissolved and liquidated, (iv) any person or entity, including a “group” (as contemplated by section 13(d)(3) of the Securities Exchange Act of 1934, as amended) acquires or gains ownership or control (including, without limitation, the power to vote) of more than 50% of the outstanding shares of the Company’s voting stock (based upon voting power), or (v) as a result of or in connection with a contested election of directors of the Company, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board of Directors.

#### **Term, Termination and Amendment of the 2014 Plan**

The Board of Directors in its discretion may terminate the 2014 Plan at any time with respect to any shares of Common Stock for which awards have not been granted. The Board of Directors shall have the right to alter or amend the 2014 Plan or any part thereof from time to time; provided that no change in the 2014 Plan may be made that would materially impair the rights of a participant with respect to an outstanding award without the consent of the participant, and the Board of Directors may not, without approval of the stockholders of the Company, (i) amend the 2014 Plan to increase the aggregate maximum number of shares that may be issued under the 2014 Plan, increase the aggregate maximum number of shares that may be issued under the 2014 Plan through Incentive Stock Options, or change the class of individuals eligible to receive awards under the 2014 Plan, or (ii) amend or delete the restriction on repricing of options.

#### **New Plan Benefits and Previous Awards**

A new plan benefits table for the 2014 Plan and the benefits or amounts that would have been received by or allocated to participants for the last completed fiscal year under the 2014 Plan if the 2014 Plan was then in effect, as described in the SEC’s proxy rules, are not provided because all awards made under the 2014 Plan will be made at the MD&C Committee’s discretion, subject to the terms of the 2014 Plan. Therefore, the benefits and amounts that will be received or allocated under the 2014 Plan are not determinable at this time, and a New Plan Benefits Table has not been provided.

In 2013, we granted awards under the 2009 Plan to our named executive officers, outside directors and to other eligible employees. The 2013 grants to the named executive officers are reflected in the Grants of Plan-Based Awards table above. The equity grant program for our non-employee directors is described under the Non-Employee Director Compensation section in this Proxy Statement.

## **Federal Income Tax Information**

The following is a brief summary of the U.S. federal income tax consequences of the 2014 Plan generally applicable to the Company and to participants in the 2014 Plan who are subject to U.S. federal taxes. The summary is based on the Code, applicable Treasury Regulations and administrative and judicial interpretations thereof, each as in effect on the date of this Proxy Statement, and is, therefore, subject to future changes in the law, possibly with retroactive effect. The summary is general in nature and does not purport to be legal or tax advice. Furthermore, the summary does not address issues relating to any U.S. gift or estate tax consequences or the consequences of any state, local or foreign tax laws. The specific tax consequences to a participant will depend upon a participant's individual circumstances.

***Nonqualified Stock Options.*** A participant generally will not recognize taxable income upon the grant or vesting of a nonqualified stock option with an exercise price at least equal to the fair market value of our Common Stock on the date of grant and no additional deferral feature. Upon the exercise of a nonqualified stock option, a participant generally will recognize compensation taxable as ordinary income in an amount equal to the difference between the fair market value of the shares underlying the stock option on the date of exercise and the exercise price of the stock option. When a participant sells the shares, the participant will have short-term or long-term capital gain or loss, as the case may be, equal to the difference between the amount the participant received from the sale and the tax basis of the shares sold. The participant's tax basis for the Common Stock acquired under a nonqualified stock option will be equal to the exercise price paid for such Common Stock, plus any amounts included in the participant's income as compensation.

***Incentive Stock Options.*** A participant generally will not recognize taxable income upon the grant of an incentive stock option. If a participant exercises an incentive stock option during employment with us or a 50%-or-more owned subsidiary or within three months after such employment ends (12 months in the case of permanent and total disability), the participant will not recognize taxable income at the time of exercise for regular U.S. federal income tax purposes. However, the amount by which the fair market value of Common Stock on the exercise date of an incentive stock option exceeds the exercise price generally will constitute an item that increases the participant's "alternative minimum taxable income." The federal alternative minimum tax may produce significant tax repercussions depending upon the participant's particular tax status. In addition, to the extent that the fair market value (determined as of the date of grant) of the Common Stock with respect to which the participant's incentive stock options are exercisable for the first time during any year exceeds \$100,000, the incentive stock options for the Common Stock over \$100,000 will be treated as nonqualified stock options, and not incentive stock options for federal tax purposes. The tax consequences of an untimely exercise of an incentive stock option will be determined in accordance with rules applicable to nonqualified stock options, discussed below.

If a participant sells or otherwise disposes of the shares acquired upon exercise of an incentive stock option after the later of (a) one year from the date the participant exercised the option and (b) two years from the grant date of the stock option, the participant generally will recognize long-term capital gain or loss equal to the difference between the amount the participant received in the disposition and the exercise price of the stock option. If a participant sells or otherwise disposes of shares acquired upon exercise of an incentive stock option before these holding period requirements are satisfied, the disposition will constitute a "disqualifying disposition," and the participant generally will recognize taxable ordinary income in the year of disposition equal to the excess of the fair market value of the shares on the date of exercise over the exercise price of the stock option (or, if less, the excess of the amount realized on the disposition of the shares over the exercise price of the stock option). The balance of the participant's gain on a disqualifying disposition, if any, will be taxed as short-term or long-term capital gain, as the case may be. The participant's basis in the Common Stock will be increased by an amount equal to the amount treated as ordinary income due to such disqualifying disposition. In this case, we may claim an income tax deduction at the time of the disqualifying disposition for the amount taxable to the participant as ordinary income.



With respect to both nonqualified stock options and incentive stock options, special rules apply if a participant uses shares of Common Stock already held by the participant to pay the exercise price or if the shares received upon exercise of the stock option are subject to a substantial risk of forfeiture by the participant.

***Stock Appreciation Rights.*** A participant generally will not recognize taxable income upon the grant or vesting of an SAR with a grant price at least equal to the fair market value of our Common Stock on the date of grant and no additional deferral feature. Upon the exercise of an SAR, a participant generally will recognize compensation taxable as ordinary income in an amount equal to the difference between the fair market value of the shares underlying the SAR on the date of exercise and the grant price of the SAR.

***Restricted Stock Awards, Phantom Stock Awards (including Restricted Stock Units), and Performance Awards.*** A participant generally will not have taxable income upon the grant of restricted stock, phantom stock awards, including restricted stock units or performance awards. Instead, the participant will recognize ordinary income at the time of vesting or payout equal to the fair market value (on the vesting or payout date) of the shares or cash received minus any amount paid. For restricted stock awards only, a participant may instead elect under Code Section 83(b) within 30 days of the date of transfer of the restricted shares to be taxed at ordinary income tax rates on the full fair market value of the restricted shares over the purchase price, if any, of such shares. If the election is made, the basis of the shares so acquired will be equal to the fair market value at the time of grant plus the purchase price (if any) paid by the participant. No tax will be payable upon the subsequent lapse or release of the restrictions, and any gain or loss upon disposition will be a capital gain or loss.

***Unrestricted Stock Awards.*** Upon receipt of an unrestricted stock award, a participant generally will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid by the participant with respect to the shares.

***Other Stock or Cash-Based Awards.*** The U.S. federal income tax consequences of other stock or cash-based awards will depend upon the specific terms of each award.

***Tax Consequences to the Company.*** In the foregoing cases, we generally will be entitled to a deduction at the same time, and in the same amount, as a participant recognizes ordinary income, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an “excess parachute payment” within the meaning of Code Section 280G and is not disallowed by the \$1,000,000 limitation on certain executive compensation under Code Section 162(m) described above.

***Code Section 409A.*** Certain awards under the 2014 Plan may be considered “nonqualified deferred compensation” subject to Code Section 409A, which imposes additional requirements on the payment of deferred compensation. Generally, options and SARs with an exercise price at least equal to the fair market value of the underlying Common Stock on the date of grant and restricted stock will not be considered deferred compensation if such awards do not include any other feature providing for the deferral of compensation. Failure to follow the provisions of Code Section 409A can result in taxation to the grantee of a 20% additional tax and interest on the taxable amount and, depending on the state, additional state taxes. We intend that awards granted under the 2014 Plan comply with, or otherwise be exempt from, Code Section 409A, but make no representation or warranty to that effect.

***Employment Tax.*** In general, the amount that a participant recognizes as ordinary income under an award also is treated as “wages” for purposes of the Federal Insurance Contributions Act (“FICA”). The participant and the company must pay equal amounts of federal employment tax under FICA with respect to the participant’s wages. Such amounts are subject to tax withholding by us.

***Tax Withholding.*** We are authorized to deduct or withhold from any award granted or payment due under the 2014 Plan, or require a participant to remit to us, the amount of any withholding taxes due in respect of the award or payment and to take such other action as may be necessary to satisfy all obligations for the payment of applicable withholding taxes. We are not required to issue any shares of Common Stock or otherwise settle an award under the 2014 Plan until all tax withholding obligations are satisfied.

**Vote Required for Approval**

Approval of the 2014 Plan requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE 2014 STOCK INCENTIVE PLAN.**

# STOCKHOLDER PROPOSAL

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## (ITEM 5 ON THE PROXY CARD)

*Waste Management is not responsible for the content of this stockholder proposal or supporting statement.*

The following proposal was submitted by the New York State Common Retirement Fund, 633 Third Avenue — 31st Floor, New York, NY 10017, which owns 1,334,317 shares of Waste Management Common Stock and the International Brotherhood of Teamsters General Fund as co-proponent. The proposal has been included verbatim as we received it.

### Stockholder Proposal

**Resolved**, that the shareholders of **Waste Management, Inc.** (“Company”) hereby request that the Company provide a report, updated semiannually, disclosing the Company’s:

1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct or indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
  - a. The identity of the recipient as well as the amount paid to each; and
  - b. The title(s) of the person(s) in the Company responsible for decision-making.

The report shall be presented to the board of directors or relevant board committee and posted on the Company’s website.

### Stockholder Supporting Statement

As long-term shareholders of Waste Management, we support transparency and accountability in corporate spending on political activities. These include any activities considered intervention in any political campaign under the Internal Revenue Code, such as direct and indirect contributions to political candidates, parties, or organizations; independent expenditures; or electioneering communications on behalf of federal, state or local candidates.

Disclosure is in the best interest of the company and its shareholders and critical for compliance with federal ethics laws. Moreover, the Supreme Court’s *Citizens United* decision recognized the importance of political spending disclosure for shareholders when it said, “[D]isclosure permits citizens and shareholders to react to the speech of corporate entities in a proper way. This transparency enables the electorate to make informed decisions and give proper weight to different speakers and messages.” Gaps in transparency and accountability may expose the company to reputational and business risks that could threaten long-term shareholder value.

Waste Management contributed at least \$7,622,951 in corporate funds since the 2003 election cycle. (CQ: <http://moneyline.cq.com> and National Institute on Money in State Politics: <http://www.followthemoney.org>)

However, relying on publicly available data does not provide a complete picture of the Company’s political spending. For example, the Company’s payments to trade associations used for political activities are undisclosed and unknown. In some cases, even management does not know how trade associations use their company’s money politically. The proposal asks the Company to disclose all of its political spending, including payments to trade associations and other tax exempt organizations used for political purposes. This would bring our Company in line with a growing number of leading companies, including Qualcomm, Exelon, Merck and Microsoft that support political disclosure and accountability and present this information on their websites.

The Company’s Board and its shareholders need comprehensive disclosure to be able to fully evaluate the political use of corporate assets. We urge your support for this critical governance reform.

## **Waste Management Response to Stockholder Proposal Regarding Disclosure of Political Contributions**

### **The Board recommends that stockholders vote AGAINST this proposal.**

The Company is fully committed to complying with all applicable laws concerning political contributions, including laws requiring public disclosure of political contributions and lobbying expenses. Accordingly, the Board believes this proposal is unnecessary because a comprehensive system of reporting and accountability for political contributions already exists, and the Company publicly discloses its participation in the political process in support of its business interests.

Current law limits the amounts of political contributions that are permissible, restricts the organizations or entities that can receive corporate funding, and establishes a clear accountability system enforced by regulatory agencies in the United States. Political contributions or donations made by the Company are required to be disclosed under federal, state and local campaign finance law. The Company fully complies with these disclosure and reporting requirements. As a result, information on the Company's political contributions is available to stockholders and interested parties through public sources.

In addition, the Company already discloses its policies and procedures for participation in public policy processes (including political contributions process criteria and disclosure and stances on key policy issues). This information, which has historically been included in the Company's sustainability reports, has been updated and aggregated into the Company's new policy entitled "Participation in the Political Process." Stockholders and interested parties can easily access this policy under the Investor Relations – Corporate Governance tab at [www.wm.com](http://www.wm.com). The Company also makes all its employees aware annually of its policies and procedures pertaining to political contributions in the Company's *Code of Conduct*, disseminated to all employees. It too is available to the public under the Investor Relations – Corporate Governance tab at [www.wm.com](http://www.wm.com).

Waste Management believes it is important to participate in the political process because it is of intrinsic benefit to our business and employees. We do not expect the candidates to whom we contribute funds to agree with our positions on all issues at all times. We do however seek to support candidates who recognize the importance of the environmental services we provide, while also recognizing that a fair, free market system provides the best environment for continued improvement of cost-effective services.

Contributions of funds from the Company's Political Action Committee ("PAC") to federal, state and local candidates and all other Company contributions are approved, in advance, by the Government Affairs Department. The PAC files monthly reports of receipts and disbursements to the Federal Election Commission ("FEC"), as well as pre-election and post-election FEC reports. Those publicly available reports identify the names of candidates supported and amounts contributed by the PAC. In addition, all political contributions to federal candidates over \$200 are publicly disclosed by the FEC. Under the Lobbying Disclosure Act of 1995, the Company submits to Congress semi-annual reports of amounts spent on lobbying and the subjects lobbied, which are also publicly available. Those reports have been submitted quarterly since April 2008 under the Honest Leadership and Open Government Act of 2007, and semi-annual reports include a list of all federal election candidates to whom the PAC contributed during the previous six months.

As further addressed in the Company's Participation in the Political Process Policy, the Company is a member of various trade or business associations to advance and protect its business interests. Illustratively, these interests have included, and the associations have aided the Company's advocacy for, renewable energy treatment for landfill gas-to-energy and waste-to-energy, incentives for natural gas vehicles and infrastructure, environmental justice, and the continued interstate transport of waste. The political activity of such associations is not necessarily representative of a position of the Company.

The Board believes disclosure of the Company's current policies and practices with regard to political contributions, together with applicable federal, state and local reporting requirements, provide appropriate transparency of our political participation. Undertaking the obligations as set forth in the proposal would result in additional time and expense to the Company with little, if any, corresponding benefit for stockholders. Accordingly, the Board recommends that you vote against this proposal.

**Vote Required for Approval**

If this proposal is properly presented at the meeting, approval requires the affirmative vote of a majority of the shares present at the meeting, in person or represented by proxy, and entitled to vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE AGAINST THE ADOPTION OF THIS PROPOSAL.**

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**OTHER MATTERS**

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We do not intend to bring any other matters before the annual meeting, nor do we have any present knowledge that any other matters will be presented by others for action at the meeting. If any other matters are properly presented, your proxy card authorizes the people named as proxy holders to vote using their judgment.

**WASTE MANAGEMENT, INC.**

**2014 STOCK INCENTIVE PLAN**

**I. PURPOSE OF THE PLAN**

The purpose of the **WASTE MANAGEMENT, INC. 2014 STOCK INCENTIVE PLAN** (the “*Plan*”) is to provide a means through which **WASTE MANAGEMENT, INC.**, a Delaware corporation (the “*Company*”), and its Affiliates may attract and retain able persons to serve as Directors or Consultants or to enter the employ of the Company and its Affiliates and to provide a means whereby those individuals upon whom the responsibilities of the successful administration and management of the Company and its Affiliates rest, and whose present and potential contributions to the Company and its Affiliates are of importance, can acquire and maintain stock ownership or other awards, thereby strengthening their concern for the welfare of the Company and its Affiliates and their desire to remain employed by, or continue providing services to, the Company and its Affiliates. A further purpose of the Plan is to provide such individuals with additional incentive and reward opportunities designed to enhance the profitable growth of the Company and its Affiliates. Accordingly, the Plan provides for granting Incentive Stock Options, Options that do not constitute Incentive Stock Options, Restricted Stock Awards, Performance Awards, Phantom Stock Awards, Bonus Stock Awards, or any combination of the foregoing, as is best suited to the circumstances of the particular Employee, Consultant, or Director as provided herein.

**II. DEFINITIONS**

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

- (a) “*Affiliate*” means any corporation, partnership, limited liability company or partnership, association, trust, or other organization which, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (i) to vote more than 50% of the securities having ordinary voting power for the election of directors of the controlled entity or organization or (ii) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.
- (b) “*Award*” means, individually or collectively, any Option, Restricted Stock Award, Performance Award, Phantom Stock Award, or Bonus Stock Award.
- (c) “*Board*” means the Board of Directors of the Company.
- (d) “*Bonus Stock Award*” means an Award granted under Paragraph XI of the Plan.
- (e) “*Bonus Stock Award Agreement*” means a written agreement between the Company and a Participant with respect to a Bonus Stock Award.
- (f) “*Code*” means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.
- (g) “*Committee*” means the Management Development and Compensation Committee of the Board or such other committee that is selected by the Board, in conformance with Paragraph IV(a).
- (h) “*Common Stock*” means the common stock, par value \$0.01 per share, of the Company, or any security into which such common stock may be changed by reason of any transaction or event of the type described in Paragraph XII.

- (i) ***“Company”*** means Waste Management, Inc., a Delaware corporation.
- (j) ***“Consultant”*** means any person who is not an Employee or a Director and who is providing advisory or consulting services to the Company or any Affiliate.
- (k) ***“Corporate Change”*** shall have the meaning assigned to such term in Paragraph XII(c) of the Plan.
- (l) ***“Director”*** means an individual who is a member of the Board, or, where the context of the Plan so permits, a member of the board of directors (or any analogous governing body) of an Affiliate of the Company.
- (m) ***“Dividend Equivalents”*** means an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable by the Company on one share of Common Stock to stockholders of record, which, in the discretion of the Committee, may be awarded in connection with any Award under the Plan on a like number of shares of Common Stock under such Award.
- (n) ***“Effective Date”*** shall have the meaning assigned to such term in Paragraph III.
- (o) ***“Employee”*** means any person (including a Director) in an employment relationship with the Company or any Affiliate.
- (p) ***“Exchange Act”*** means the Securities Exchange Act of 1934, as amended.
- (q) ***“Fair Market Value”*** means, as to a share of Common Stock, as of a particular date, (i) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of such Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, (ii) if shares of Common Stock are not so listed but are quoted by The Nasdaq Stock Market, Inc., the average of the highest and lowest sales price per share of Common Stock reported on the consolidated transaction reporting system for The Nasdaq Stock Market, Inc., or, if there shall have been no such sale so reported on that date, on the last preceding date on which such a sale was so reported, or, at the discretion of the Committee, the price prevailing as quoted by The Nasdaq Stock Market, Inc. on that date, (iii) if shares of Common Stock are not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the last preceding date on which such quotations are available, as reported by The Nasdaq Stock Market, Inc., or, if not reported by The Nasdaq Stock Market, Inc., by the National Quotation Bureau Incorporated or (iv) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose consistent with the requirements of section 409A of the Code.
- (r) ***“Incentive Stock Option”*** means an incentive stock option within the meaning of section 422 of the Code.
- (s) ***“Option”*** means an Award granted under Paragraph VII of the Plan and includes both Incentive Stock Options to purchase Common Stock and Options that do not constitute Incentive Stock Options to purchase Common Stock.
- (t) ***“Option Agreement”*** means a written agreement between the Company and a Participant with respect to an Option.
- (u) ***“Participant”*** means an Employee, Consultant, or Director who has been granted an Award.
- (v) ***“Performance Award”*** means an Award granted under Paragraph IX of the Plan.
- (w) ***“Performance Award Agreement”*** means a written agreement between the Company and a Participant with respect to a Performance Award.
- (x) ***“Performance Measure”*** means one or more performance measures established by the Committee that are based on (i) the price of a share of Common Stock, (ii) earnings per share, (iii) market share, (iv) revenues or sales, (v) operating income or operating income margin, (vi) net income or net income margin (before or after taxes), (vii) cash flow or return on investment, (viii) earnings or earnings margin



before or after interest, taxes, depreciation, and/or amortization, (ix) economic value added, (x) return on capital, assets, or stockholders' equity, (xi) debt level or debt reduction, (xii) cost reduction targets, (xiii) total stockholders' return, or (xiv) any combination of the foregoing. The performance measures described in the preceding sentence may be absolute, relative to one or more other companies, relative to one or more indexes, or measured by reference to the Company alone, one or more business units or Affiliates of the Company alone, or the Company together with one or more of its business units or Affiliates. In addition, subject to any limitations under section 162(m) of the Code, such performance measures may be subject to adjustment by the Committee for changes in accounting principles, to satisfy regulatory requirements and other specified significant extraordinary items or events. Notwithstanding the foregoing, if a Performance Award is not intended to be qualified performance-based compensation under section 162(m) of the Code, Performance Measure means such achievement of goals as may be established by the Committee.

(y) ***"Phantom Stock Award"*** means an Award granted under Paragraph X of the Plan.

(z) ***"Phantom Stock Award Agreement"*** means a written agreement between the Company and a Participant with respect to a Phantom Stock Award.

(aa) ***"Plan"*** means the Waste Management, Inc. 2014 Stock Incentive Plan, as amended from time to time.

(bb) ***"Prior Plan"*** means the Waste Management, Inc. 2009 Stock Incentive Plan.

(cc) ***"Restricted Stock Agreement"*** means a written agreement between the Company and a Participant with respect to a Restricted Stock Award.

(dd) ***"Restricted Stock Award"*** means an Award granted under Paragraph VIII of the Plan.

(ee) ***"Rule 16b-3"*** means Securities Exchange Commission Rule 16b-3 promulgated under the Exchange Act, as such may be amended from time to time, and any successor rule, regulation, or statute fulfilling the same or a similar function.

(ff) ***"Stock Appreciation Right"*** means a right to acquire, upon exercise of the right, Common Stock and/or, in the sole discretion of the Committee, cash having an aggregate value equal to the then excess of the Fair Market Value of the shares with respect to which the right is exercised over the exercise price therefor. The Committee shall retain final authority to determine whether a Participant shall be permitted, and to approve an election by a Participant, to receive cash in full or partial settlement of a Stock Appreciation Right.

### III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall become effective following (a) its adoption by the Board and (b) its approval by the stockholders of the Company within 12 months of such adoption in a manner that satisfies the requirements of section 422 of the Code and the regulations thereunder (the ***"Effective Date"***). Notwithstanding any provision in the Plan to the contrary, no Option shall be exercisable, no Restricted Stock Award or Bonus Stock Award shall be granted, and no Performance Award or Phantom Stock Award shall vest or become satisfiable prior to the Effective Date. No further Awards may be granted under the Plan after 10 years from the Effective Date. The Plan shall remain in effect until all Options granted under the Plan have been exercised or expired, all Restricted Stock Awards granted under the Plan have vested or been forfeited, and all Performance Awards, Phantom Stock Awards, and Bonus Stock Awards have been satisfied or expired.



#### IV. ADMINISTRATION

(a) **Composition of Committee.** The Plan shall be administered by a committee of, and appointed by, the Board that shall be comprised solely of two or more outside Directors (within the meaning of the term “outside directors” as used in section 162(m) of the Code and applicable interpretive authority thereunder and within the meaning of the term “Non-Employee Director” as defined in Rule 16b-3).

(b) **Powers.** Subject to the express provisions of the Plan, the Committee shall have authority, in its discretion, to determine which Employees, Consultants, or Directors shall receive an Award, the time or times when such Award shall be made, the type of Award that shall be made, the number of shares of Common Stock to be subject to each Option, Restricted Stock Award, or Bonus Stock Award, and the number of shares of Common Stock to be subject to or the value of each Performance Award or Phantom Stock Award. In making such determinations the Committee shall take into account the nature of the services rendered by the respective Employees, Consultants, or Directors, their present and potential contribution to the Company’s success, and such other factors as the Committee in its sole discretion shall deem relevant.

(c) **Additional Powers.** The Committee shall have such additional powers as are delegated to it by the other provisions of the Plan. Subject to the express provisions of the Plan, this shall include the power to construe the Plan and the respective agreements executed hereunder, to prescribe, amend, suspend or waive rules and regulations relating to the Plan, to determine the terms, restrictions, and provisions of the agreement relating to each Award, including such terms, restrictions, and provisions as shall be requisite in the judgment of the Committee to cause designated Options to qualify as Incentive Stock Options, and to make all other determinations necessary or advisable for administering the Plan. The Committee may, in its discretion, amend the terms of any Award Agreement provided the amendment (i) is not adverse to the Participant, or (ii) is consented to by the Participant. Notwithstanding the foregoing, the authority to accelerate the exercisability or vesting or otherwise terminate restrictions related to an Award may be exercised only in connection with a Participant’s death, disability, retirement, in connection with a Corporate Change or the sale of one or more subsidiaries or divisions, or to the extent such actions involve an aggregate number of shares of Common Stock not in excess of 5% of the total shares authorized for issuance under the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any agreement relating to an Award in the manner and to the extent the Committee shall deem expedient to carry the Plan or any such agreement into effect. All determinations and decisions made by the Committee on the matters referred to in this Paragraph IV and in construing the provisions of the Plan shall be conclusive.

(d) **Delegation of Authority by the Committee.** Notwithstanding the preceding provisions of this Paragraph IV or any other provision of the Plan to the contrary, subject to the constraints of applicable law, the Committee may from time to time, in its sole discretion, delegate to the Chief Executive Officer of the Company (the “*CEO*”) the administration (or interpretation of any provision) of the Plan, and the right to grant Awards under the Plan, insofar as such administration (and interpretation) and power to grant Awards relates to any person who is not then subject to section 16 of the Exchange Act (including any successor section to the same or similar effect). Any such delegation may be effective only so long as the CEO is a member of the Board, and the Committee may revoke such delegation at any time. The Committee may put any conditions and restrictions on the powers that may be exercised by the CEO upon such delegation as the Committee determines in its sole discretion. In the event of any conflict in a determination or interpretation under the Plan as between the Committee and the CEO, the determination or interpretation, as applicable, of the Committee shall be conclusive.

(e) **Authority as to Non-Employee Directors.** The Committee’s actions respecting grants of Awards to non-employee Directors shall be in accordance with Board approval.

(f) **Liability.** No member of the Committee or its delegatee shall be liable for actions or inactions under the Plan except for willful misconduct or as expressly provided by law.

## **V. SHARES SUBJECT TO THE PLAN; AWARD LIMITS; GRANT OF AWARDS**

(a) **Shares Subject to the Plan and Award Limits.** Subject to adjustment in the same manner as provided in Paragraph XII with respect to shares of Common Stock subject to Options then outstanding, the aggregate maximum number of shares of Common Stock that may be issued under the Plan, and the aggregate maximum number of shares of Common Stock that may be issued under the Plan through Incentive Stock Options, shall not exceed 23,800,000 shares, plus (i) any shares of Common Stock that, as of the Effective Date, are available for issuance under the Prior Plan (and that are not subject to outstanding awards under the Prior Plan) and (ii) any shares of Common Stock subject to outstanding awards under the Prior Plan as of the Effective Date that are subsequently canceled or forfeited, or terminate, expire or lapse for any reason or any shares of Common Stock that otherwise subsequently become available under the Prior Plan. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses or the rights of its holder terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award under the Plan. In addition, shares issued under the Plan and forfeited back to the Plan, shares surrendered in payment of the exercise price or purchase price of an Award, and shares withheld for payment of applicable employment taxes and/or withholding obligations associated with an Award shall again be available for the grant of an Award under the Plan. Notwithstanding any provision in the Plan to the contrary, (i) the maximum number of shares of Common Stock that may be subject to Awards denominated in shares of Common Stock granted to any one individual during any calendar year may not exceed 1,500,000 shares and (ii) the maximum amount of compensation that may be paid under all Performance Awards denominated in cash (including the Fair Market Value of any shares of Common Stock paid in satisfaction of such Performance Awards) granted to any one individual during any calendar year may not exceed \$7,000,000. The limitations set forth in clauses (i) and (ii) of the preceding sentence shall be applied in a manner that will permit Awards that are intended to provide “performance-based” compensation for purposes of section 162(m) of the Code to satisfy the requirements of such section, including, without limitation, counting against such maximum number of shares, to the extent required under section 162(m) of the Code and applicable interpretive authority thereunder, any shares subject to Awards granted to Employees that are canceled or re-priced. Notwithstanding any provision in the Plan to the contrary, the aggregate grant date fair value (computed in accordance with applicable accounting rules) of all Awards granted to any non-employee Director during any calendar year shall not exceed \$500,000.

(b) **Grant of Awards.** The Committee may from time to time grant Awards to one or more Employees, Consultants, or Directors determined by it to be eligible for participation in the Plan in accordance with the terms of the Plan.

(c) **Stock Offered.** Subject to the limitations set forth in Paragraph V(a), the stock to be offered pursuant to the grant of an Award may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company. Any of such shares that remain unissued and that are not subject to outstanding Awards at the termination of the Plan shall cease to be subject to the Plan but, until termination of the Plan, the Company shall at all times make available a sufficient number of shares to meet the requirements of the Plan. The shares of the Company’s stock to be issued pursuant to any Award may be represented by physical stock certificates or may be uncertificated. Notwithstanding references in the Plan to certificates, the Company may deliver uncertificated shares of Common Stock in connection with any Award.

(d) **Acquired Companies.** If a company is acquired by or combined with the Company and has shares available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition or combination, the shares available under such pre-existing plan (as adjusted, to the extent appropriate) may be used for Awards under the Plan and shall not reduce the shares of Common Stock authorized for issuance under the Plan. Awards using such available shares shall be made prior to the date that awards could have been made under the pre-existing plan and shall be made to individuals who were not Employees, Consultants or Directors prior to such acquisition or combination. Moreover, shares of

Common Stock respecting Awards granted upon the assumption of, or in substitution or exchange for, awards outstanding under such pre-existing plan shall not reduce the shares of Common Stock authorized for issuance under the Plan.

(e) **Minimum Vesting Periods.** Restricted Stock Awards and Phantom Stock Awards in the form of restricted stock units that vest as a result of the passage of time and continued service by the Participant shall be subject to a minimum vesting period of three years from the date of grant (but with permissible pro rata vesting over such period). Restricted Stock Awards, Bonus Stock Awards and Performance Awards whose vesting is subject to the achievement of specified performance criteria over a performance period shall be subject to a minimum performance period of one year. Notwithstanding the foregoing, such minimum vesting periods shall not apply (i) to terminations of employment due to death, disability or retirement, (ii) upon a change in control of the Company, (iii) to substitute awards (not reducing the vesting periods of the Awards being replaced) and (iv) to Awards involving an aggregate number of shares of Common Stock not in excess of 5% of the total shares authorized for issuance under the Plan.

## VI. ELIGIBILITY

Awards may be granted only to persons who, at the time of grant, are Employees, Consultants, or Directors. An Award may be granted on more than one occasion to the same person, and, subject to the limitations set forth in the Plan, such Award may include an Incentive Stock Option, an Option that is not an Incentive Stock Option, a Restricted Stock Award, a Performance Award, a Phantom Stock Award, a Bonus Stock Award, or any combination thereof.

## VII. STOCK OPTIONS

(a) **Option Period.** The term of each Option shall be as specified by the Committee at the date of grant, but in no event shall an Option be exercisable after the expiration of 10 years from the date of grant.

(b) **Limitations on Exercise of Option.** An Option shall be exercisable in whole or in such installments and at such times as determined by the Committee.

(c) **Special Limitations on Incentive Stock Options.** An Incentive Stock Option may be granted only to an individual who is employed by the Company or any “parent corporation” or “subsidiary corporation” (as such terms are defined in section 424 of the Code) of the Company at the time the Option is granted. To the extent that the aggregate fair market value (determined at the time the respective Incentive Stock Option is granted) of stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and subsidiary corporations, within the meaning of section 424 of the Code, exceeds \$100,000 or such other amount as may be prescribed under section 422 of the Code or applicable regulations or rulings from time to time, such Incentive Stock Options shall be treated as Options that do not constitute Incentive Stock Options. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury regulations, and other administrative pronouncements, which of a Participant’s Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the Participant of such determination as soon as practicable after such determination. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporation, within the meaning of section 422(b)(6) of the Code, unless (i) at the time such Option is granted, the option price is at least 110% of the Fair Market Value of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant. Except as otherwise provided in sections 421 or 422 of the Code, an Incentive Stock Option shall not be transferable otherwise than by will or the laws of descent and distribution and shall be exercisable during the Participant’s lifetime only by such Participant or the Participant’s guardian or legal representative.

(d) **Option Agreement.** Each Option shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, provisions to qualify an Option as an Incentive Stock Option under section 422 of the Code. Each Option Agreement shall specify the effect of termination of (i) employment, (ii) the consulting or advisory relationship or (iii) membership on the Board or the board of directors (or analogous governing body) of an Affiliate of the Company, as applicable, on the exercisability of the Option. An Option Agreement may provide for the payment of the option price, in whole or in part, by the delivery of a number of shares of Common Stock (plus cash if necessary) having a Fair Market Value equal to such option price. Moreover, an Option Agreement may provide for a “cashless exercise” of the Option by establishing procedures satisfactory to the Committee with respect thereto. Further, an Option Agreement may provide, on such terms and conditions as the Committee in its sole discretion may prescribe, for the grant of a Stock Appreciation Right in connection with the grant of an Option and, in such case, the exercise of the Stock Appreciation Right shall result in the surrender of the right to purchase a number of shares under the Option equal to the number of shares with respect to which the Stock Appreciation Right is exercised (and vice versa). In the case of any Stock Appreciation Right that is granted in connection with an Incentive Stock Option, such right shall be exercisable only when the Fair Market Value of the Common Stock exceeds the exercise price specified therefor in the Option or the portion thereof to be surrendered. The terms and conditions of the respective Option Agreements need not be identical. The Committee may, in its sole discretion, amend an outstanding Option Agreement from time to time in any manner that is not inconsistent with the provisions of the Plan (including, without limitation, an amendment that accelerates the time at which the Option, or a portion thereof, may be exercisable), provided that, except as otherwise provided in the Plan or the applicable Option Agreement, any such amendment shall not materially reduce the rights of a Participant without the consent of such Participant.

(e) **Option Price and Payment.** The price at which a share of Common Stock may be purchased upon exercise of an Option shall be determined by the Committee but, subject to the special limitations on Incentive Stock Options set forth in Paragraph VII(c) and to adjustment as provided in Paragraph XII, such purchase price shall not be less than the Fair Market Value of a share of Common Stock on the date such Option is granted. The Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company, as specified by the Committee. The purchase price of the Option or portion thereof shall be paid in full in the manner prescribed by the Committee. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of any Option that does not constitute an Incentive Stock Option.

(f) **Restrictions on Repricing of Options.** Except as provided in Paragraph XII, the Committee may not, without approval of the stockholders of the Company, (i) amend any outstanding Option Agreement to lower the option price, (ii) cancel and replace any outstanding Option Agreement with Option Agreements having a lower option price or (iii) repurchase any Option at a time when the Fair Market Value of the Common Stock is less than the exercise price of the Option.

(g) **Stockholder Rights and Privileges.** The Participant shall be entitled to all the privileges and rights of a stockholder only with respect to such shares of Common Stock as have been purchased under the Option and for which shares of stock have been issued to the Participant.

(h) **Options and Rights in Substitution for Options Granted by Other Employers.** Options and Stock Appreciation Rights may be granted under the Plan from time to time in substitution for options and such rights held by individuals providing services to corporations or other entities who become Employees, Consultants, or Directors as a result of a merger or consolidation or other business transaction with the Company or any Affiliate.

## VIII. RESTRICTED STOCK AWARDS

(a) **Forfeiture Restrictions to be Established by the Committee.** Shares of Common Stock that are the subject of a Restricted Stock Award shall be subject to restrictions on transferability by the Participant and an obligation of the Participant to forfeit and surrender the shares to the Company under certain circumstances (the “***Forfeiture Restrictions***”). The Forfeiture Restrictions shall be determined by the Committee in its sole discretion, and the Committee may provide that the Forfeiture Restrictions shall lapse upon (i) the attainment of one or more Performance Measures, (ii) the Participant’s continued employment with the Company or one of its Affiliates or continued service as a Consultant or Director for a specified period of time, (iii) the occurrence of any event or the satisfaction of any other condition specified by the Committee in its sole discretion, or (iv) a combination of any of the foregoing. Each Restricted Stock Award may have different Forfeiture Restrictions, in the discretion of the Committee.

(b) **Other Terms and Conditions.** Unless provided otherwise in a Restricted Stock Agreement, the Participant shall have the right to receive dividends with respect to Common Stock subject to a Restricted Stock Award, to vote Common Stock subject thereto, and to enjoy all other stockholder rights, except that (i) the Participant shall not be entitled to delivery of the stock certificate until the Forfeiture Restrictions have expired, (ii) the Company shall retain custody of the stock until the Forfeiture Restrictions have expired, (iii) the Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of or encumber the stock until the Forfeiture Restrictions have expired, (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Agreement shall result in a forfeiture of the Restricted Stock Award as determined by the Committee, and (v) with respect to the payment of any dividend with respect to shares of Common Stock subject to a Restricted Stock Award directly to the Participant, each such dividend shall be paid no later than the end of the calendar year in which the dividends are paid to stockholders of such class of shares or, if later, the fifteenth day of the third month following the date the dividends are paid to stockholders of such class of shares. At the time a Restricted Stock Award is granted, the Committee may, in its sole discretion, prescribe additional terms, conditions, or restrictions relating to Restricted Stock Awards, including, but not limited to, rules pertaining to the termination of employment or service as a Consultant or Director (by retirement, disability, death, or otherwise) of a Participant prior to expiration of the Forfeitures Restrictions. Such additional terms, conditions, or restrictions shall be set forth in a Restricted Stock Agreement made in conjunction with the Award.

(c) **Payment for Restricted Stock.** The Committee shall determine the amount and form of any payment for Common Stock received pursuant to a Restricted Stock Award, provided that in the absence of such a determination, a Participant shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

(d) **Committee’s Discretion to Accelerate Vesting of Restricted Stock Awards.** Subject to any limitations imposed under section 162(m) of the Code, the Committee may, in its discretion and as of a date determined by the Committee, fully vest any or all Common Stock awarded to a Participant pursuant to a Restricted Stock Award and, upon such vesting, all Forfeiture Restrictions applicable to such Restricted Stock Award shall terminate as of such date. Any action by the Committee pursuant to this Subparagraph may vary among individual Participants and may vary among the Restricted Stock Awards held by any individual Participant.

(e) **Restricted Stock Agreements.** At the time any Award is made under this Paragraph VIII, the Company and the Participant shall enter into a Restricted Stock Agreement setting forth each of the matters contemplated hereby and such other matters as the Committee may determine to be appropriate. The terms and provisions of the respective Restricted Stock Agreements need not be identical. Subject to the restriction set forth in the first sentence of Subparagraph (d) above, the Committee may, in its sole discretion, amend an outstanding Restricted Stock Agreement from time to time in any manner that is not inconsistent with the provisions of the Plan, provided that, except as otherwise provided in the Plan or the applicable Restricted Stock Agreement, any such amendment shall not materially reduce the rights of a Participant without the consent of such Participant.



## IX. PERFORMANCE AWARDS

(a) **Performance Awards.** Performance Awards may be in the form of (i) performance share units which are rights to receive shares of Common Stock (or the Fair Market Value thereof), (ii) rights to receive an amount equal to any appreciation or increase in the Fair Market Value of Common Stock, or (iii) specified cash amounts, which may vest over a period of time as established by the Committee, but which are subject to the satisfaction of performance criteria or objectives that are based on one or more Performance Measures. The Committee may, in its discretion, require payment or other conditions of the Participant respecting any Performance Award.

(b) **Performance Period.** The Committee shall establish, with respect to and at the time of each Performance Award, the number of shares of Common Stock subject to, or the maximum value of, the Performance Award and the performance period over which the performance applicable to the Performance Award shall be measured.

(c) **Performance Measures.** A Performance Award shall be awarded to a Participant contingent upon future performance of the Company or any Affiliate, division, or department thereof under a Performance Measure during the performance period. With respect to Performance Awards that are intended to constitute “performance-based” compensation under section 162(m) of the Code, the Committee shall establish the initial Performance Measures applicable to such performance within any time period required under section 162(m) of the Code and applicable interpretative authority thereunder. The Committee, in its sole discretion, may provide for an adjustable Performance Award value based upon the level of achievement of Performance Measures.

(d) **Awards Criteria.** In determining the value of Performance Awards, the Committee shall take into account a Participant’s responsibility level, performance, potential, other Awards, and such other considerations as it deems appropriate. The Committee, in its sole discretion, may provide for a reduction in the value of a Participant’s Performance Award during the performance period.

(e) **Payment.** Following the end of the performance period, the holder of a Performance Award shall be entitled to receive payment of an amount not exceeding the number of shares of Common Stock subject to, or the maximum value of, the Performance Award, based on the achievement of the Performance Measures for such performance period, as determined and certified in writing by the Committee. Payment of a Performance Award may be made in cash, Common Stock, or a combination thereof, as determined by the Committee. Payment shall be made in a lump sum or in installments as prescribed by the Committee. If a Performance Award covering shares of Common Stock is to be paid in cash, such payment shall be based on the Fair Market Value of the Common Stock on the payment date or such other date as may be specified by the Committee in the Performance Award Agreement. Dividend Equivalents may be paid after the applicable vesting period and Performance Period with respect to an earned Performance Award, in accordance with such terms as may be determined by the Committee. A Participant shall not be entitled to the privileges and rights of a stockholder with respect to a Performance Award covering shares of Common Stock until payment has been determined by the Committee and such shares have been delivered to the Participant.

(f) **Deferrals.** With the consent of the Committee, amounts payable in respect of Performance Awards in the form of performance share units (but not including Dividend Equivalents respecting such Awards) may be subject to elective deferral by the Participant pursuant to the terms and conditions determined by the Committee and in accordance with the provisions of the Waste Management, Inc. 409A Deferral Savings Plan.

(g) **Termination of Award.** A Performance Award shall terminate if the Participant does not remain continuously in the employ of the Company and its Affiliates or does not continue to perform services as a Consultant or a Director for the Company and its Affiliates at all times during the applicable performance period through the payment date, except as may be determined by the Committee.

(h) **Performance Award Agreements.** At the time any Award is made under this Paragraph IX, the Company and the Participant shall enter into a Performance Award Agreement setting forth each of the matters contemplated hereby and such additional matters as the Committee may determine to be appropriate. The terms and provisions of the respective Performance Award Agreements need not be identical.

## **X. PHANTOM STOCK AWARDS**

(a) **Phantom Stock Awards.** Phantom Stock Awards are rights to receive shares of Common Stock (or the Fair Market Value thereof), or rights to receive an amount equal to any appreciation or increase in the Fair Market Value of Common Stock over a specified period of time, which vest over a period of time as established by the Committee, without satisfaction of any performance criteria or objectives that are based upon one or more Performance Measures. The Committee may, in its discretion, require payment or other conditions of the Participant respecting any Phantom Stock Award. Specifically, but without limitation, a Phantom Stock Award may be issued in the form of a restricted stock unit. A Phantom Stock Award may include, without limitation, a Stock Appreciation Right that is granted independently of an Option; provided, however, that the exercise price per share of Common Stock subject to the Stock Appreciation Right shall be (i) determined by the Committee but, subject to adjustment as provided in Paragraph XII, such exercise price shall not be less than the Fair Market Value of a share of Common Stock on the date such Stock Appreciation Right is granted, and (ii) subject to the restrictions on repricings described in Paragraph VII(f) in the same manner as applies to Options.

(b) **Award Period.** The Committee shall establish, with respect to and at the time of each Phantom Stock Award, a period over which the Award shall vest with respect to the Participant.

(c) **Awards Criteria.** In determining the value of Phantom Stock Awards, the Committee shall take into account a Participant's responsibility level, performance, potential, other Awards, and such other considerations as it deems appropriate.

(d) **Payment.** Following the end of the vesting period for a Phantom Stock Award (or at such other time as the applicable Phantom Stock Award Agreement may provide), the holder of a Phantom Stock Award shall be entitled to receive payment of an amount, not exceeding the maximum value of the Phantom Stock Award, based on the then vested value of the Award. Payment of a Phantom Stock Award may be made in cash, Common Stock, or a combination thereof as determined by the Committee. Payment shall be made in a lump sum or in installments as prescribed by the Committee. Any payment to be made in cash shall be based on the Fair Market Value of the Common Stock on the payment date or such other date as may be specified by the Committee in the Phantom Stock Award Agreement. Dividend Equivalents may be paid after the applicable vesting period with respect to an earned Phantom Stock Award, in accordance with such terms as may be determined by the Committee. A Participant shall not be entitled to the privileges and rights of a stockholder with respect to a Phantom Stock Award until the shares of Common Stock, if any, have been delivered to the Participant.

(e) **Deferrals.** With the consent of the Committee, amounts payable in respect of Phantom Stock Awards in the form of restricted stock units (but not including Dividend Equivalents respecting such Awards) may be subject to elective deferral by the Participant pursuant to the terms and conditions determined by the Committee and in accordance with the provisions of the Waste Management, Inc. 409A Deferral Savings Plan.

(f) **Termination of Award.** A Phantom Stock Award shall terminate if the Participant does not remain continuously in the employ of the Company and its Affiliates or does not continue to perform services as a Consultant or a Director for the Company and its Affiliates at all times during the applicable vesting period, except as may be otherwise determined by the Committee.

(g) **Phantom Stock Award Agreements.** At the time any Award is made under this Paragraph X, the Company and the Participant shall enter into a Phantom Stock Award Agreement setting forth each of the matters contemplated hereby and such additional matters as the Committee may determine to be appropriate. The terms and provisions of the respective Phantom Stock Award Agreements need not be identical.

## **XI. BONUS STOCK AWARDS**

Each Bonus Stock Award granted to a Participant shall constitute a transfer of unrestricted shares of Common Stock on such terms and conditions as the Committee shall determine. Bonus Stock Awards shall be made in shares of Common Stock and need not be subject to performance criteria or objectives or to forfeiture. The purchase price, if any, for shares of Common Stock issued in connection with a Bonus Stock Award shall be determined by the Committee in its sole discretion. The Company and the Participant shall enter into a Bonus Stock Award Agreement setting forth the terms of any such Award.

## **XII. RECAPITALIZATION OR REORGANIZATION**

(a) **No Effect on Right or Power.** The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization, or other change in the Company's or any Affiliate's capital structure or its business, any merger, consolidation or other business combination of the Company or any Affiliate, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any Affiliate, any sale, lease, exchange, or other disposition of all or any part of its assets or business, or any other corporate act or proceeding.

(b) **Subdivision or Consolidation of Shares; Stock Dividends.** The shares with respect to which Awards may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Award theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such Award may thereafter be exercised or satisfied, as applicable, (i) in the event of an increase in the number of outstanding shares, shall be proportionately increased, and the purchase price per share, if any, shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares, shall be proportionately reduced, and the purchase price per share, if any, shall be proportionately increased. Any fractional share resulting from such adjustment shall be rounded up to the next whole share.

(c) **Recapitalizations and Corporate Changes.** If the Company recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure (a "***recapitalization***"), the number and class of shares of Common Stock or other property covered by an Award theretofore granted and the purchase price of Common Stock or other consideration subject to such Award shall be adjusted so that such Award shall thereafter cover the number and class of shares of stock and securities to which the Participant would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the Participant had been the holder of record of the number of shares of Common Stock then covered by such Award. If (i) the Company shall not be the surviving entity in any consummated merger, consolidation or other business combination or reorganization (or survives only as a subsidiary of an entity), (ii) the Company sells, leases, or exchanges all or substantially all of its assets to any other person or entity, (iii) the Company is dissolved and liquidated, (iv) any person or entity, including a "group" as contemplated by section 13(d)(3) of the Exchange Act, acquires or gains ownership or control (including, without limitation, the power to vote) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (v) as a result of or in connection with a contested election of directors of the Company, the persons who were directors of the Company before such election shall cease to constitute a majority of



the Board (each such event is referred to herein as a “**Corporate Change**”), then no later than (x) 10 days after such merger, consolidation, business combination, reorganization, sale, lease, or exchange of assets or dissolution and liquidation or such election of directors or (y) 30 days after a Corporate Change of the type described in clause (iv), the Committee, acting in its sole discretion without the consent or approval of any Participant, shall effect one or more of the following alternatives in an equitable and appropriate manner to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, which alternatives may vary among individual Participants and which may vary among Awards held by any individual Participant: (1) accelerate the time at which Options or Stock Appreciation Rights then outstanding may be exercised so that such Awards may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all such unexercised Awards and all rights of Participants thereunder shall terminate, (2) require the mandatory surrender to the Company by all or selected Participants of some or all of the outstanding Options or Stock Appreciation Rights held by such Participants (irrespective of whether such Awards are then exercisable under the provisions of the Plan) as of a date, before or after such Corporate Change, specified by the Committee, in which event the Committee shall thereupon cancel such Awards and the Company shall pay (or cause to be paid) to each Participant an amount of cash per share equal to the excess, if any, of the amount calculated in Subparagraph (d) below (the “**Change of Control Value**”) of the shares subject to such Awards over the exercise price(s) under such Awards for such shares, or (3) make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Corporate Change and to prevent the dilution or enlargement of rights (provided, however, that the Committee may determine in its sole discretion that no adjustment is necessary to such Awards then outstanding), including, without limitation, adjusting such an Award to provide that the number and class of shares of Common Stock covered by such Award shall be adjusted so that such Award shall thereafter cover securities of the surviving or acquiring corporation or other property (including, without limitation, cash) as determined by the Committee in its sole discretion.

(d) **Change of Control Value.** For the purposes of clause (2) in Subparagraph (c) above, the “**Change of Control Value**” shall equal the amount determined in the following clause (i), (ii) or (iii), whichever is applicable: (i) the per share price offered to stockholders of the Company in any such merger, consolidation, or other business combination, reorganization, sale of assets or dissolution and liquidation transaction, (ii) the per share price offered to stockholders of the Company in any tender offer or exchange offer whereby a Corporate Change takes place, or (iii) if such Corporate Change occurs other than pursuant to a tender or exchange offer, the fair market value per share of the shares into which such Options or Stock Appreciation Rights being surrendered are exercisable, as determined by the Committee as of the date determined by the Committee to be the date of cancellation and surrender of such Awards. In the event that the consideration offered to stockholders of the Company in any transaction described in this Subparagraph (d) or Subparagraph (c) above consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash.

(e) **Other Changes in the Common Stock.** In the event of changes in the outstanding Common Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, split-ups, split-offs, spin-offs, exchanges, or other relevant changes in capitalization or distributions (other than ordinary dividends) to the holders of Common Stock occurring after the date of the grant of any Award and not otherwise provided for by this Paragraph XII, such Award and any agreement evidencing such Award shall be subject to adjustment by the Committee at its sole discretion as to the number and price of shares of Common Stock or other consideration subject to such Award, accelerated vesting, conversion into other securities or interests or cash settlement in exchange for cancellation in an equitable and appropriate manner so as to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under such Award. Notwithstanding the foregoing, with respect to a change that constitutes an “equity restructuring” that would be subject to a compensation expense pursuant to Accounting Standards Codification Topic 718, *Compensation — Stock Compensation*, or any successor accounting standard, the provisions in Subparagraph (c) above shall control to the extent they are in conflict with the discretionary provisions of this Subparagraph (e). In the event of any such change in the outstanding Common Stock or

distribution to the holders of Common Stock, or upon the occurrence of any other event described in this Paragraph XII, the aggregate maximum number of shares available under the Plan, the aggregate maximum number of shares that may be issued under the Plan through Incentive Stock Options, and the maximum number of shares that may be subject to Awards granted to any one individual during any calendar year shall be appropriately adjusted to the extent, if any, determined by the Committee, whose determination shall be conclusive.

(f) **Stockholder Action.** Any adjustment provided for in the above Subparagraphs shall be subject to any stockholder action required by applicable law or regulation or the Company's certificate of incorporation or bylaws.

(g) **No Adjustments Unless Otherwise Provided.** Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted or the purchase price per share, if applicable.

### **XIII. AMENDMENT AND TERMINATION OF THE PLAN**

The Board in its discretion may terminate the Plan at any time with respect to any shares of Common Stock for which Awards have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided that no change in the Plan may be made that would materially impair the rights of a Participant with respect to an Award theretofore granted without the consent of the Participant, and provided, further, that the Board may not, without approval of the stockholders of the Company, (a) amend the Plan to increase the aggregate maximum number of shares that may be issued under the Plan, increase the aggregate maximum number of shares that may be issued under the Plan through Incentive Stock Options, or change the class of individuals eligible to receive Awards under the Plan, or (b) amend or delete Paragraph VII(f).

### **XIV. MISCELLANEOUS**

(a) **No Right To An Award.** Neither the adoption of the Plan nor any action of the Board or of the Committee shall be deemed to give any individual any right to be granted an Award, or any other rights hereunder except as may be evidenced by an Award agreement duly executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the performance of its obligations under any Award.

(b) **No Employment/Membership Rights Conferred.** Nothing contained in the Plan shall (i) confer upon any Employee or Consultant any right with respect to continuation of employment or of a consulting or advisory relationship with the Company or any Affiliate or (ii) interfere in any way with the right of the Company or any Affiliate to terminate his or her employment or consulting or advisory relationship at any time. Nothing contained in the Plan shall confer upon any Director any right with respect to continuation of membership on the Board or the board of directors (or analogous governing body) of any Affiliate of the Company.

(c) **Other Laws; Withholding.** The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the shares covered by such Award have not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules, and regulations as the Company or the Committee deems applicable and, in the opinion of legal counsel for

the Company, there is no exemption from the registration requirements of such laws, rules, and regulations available for the issuance and sale of such shares. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid unless otherwise determined by the Committee. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations.

(d) **No Restriction on Corporate Action.** Nothing contained in the Plan shall be construed to prevent the Company or any Affiliate from taking any action which is deemed by the Company or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Participant, beneficiary or other person shall have any claim against the Company, any Affiliate, or the Board or the Committee as a result of any such action.

(e) **Restrictions on Transfer.** An Award (other than an Incentive Stock Option, which shall be subject to the transfer restrictions set forth in Paragraph VII(c)) shall not be transferable otherwise than (i) by will or the laws of descent and distribution, (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, or (iii) with the consent of the Committee.

(f) **Clawback.** Notwithstanding any provisions in the Plan to the contrary, any portion of the payments and benefits provided under the Plan or the sale of shares of Common Stock shall be subject to a clawback or other recovery by the Company to the extent necessary to comply with applicable law including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any Securities and Exchange Commission rule. The Committee, in its discretion, may also specify clawback and/or recovery provisions in Award Agreements under the Plan.

(g) **Section 409A of the Code.** Plan provisions to the contrary notwithstanding, in the event an Award granted under the Plan is governed by Section 409A of the Code, then (i) such Award shall be interpreted by the Committee to comply with Section 409A of the Code, and (ii) the Committee, in its discretion, may amend such Award, without a Participant's consent, as necessary to avoid the imposition of additional taxes and interest under Section 409A of the Code.

(h) **Delayed Payment Restriction.** Notwithstanding any provision in the Plan or an Award agreement to the contrary, if any payment or benefit provided for under an Award would be subject to additional taxes and interest under section 409A of the Code if the Participant's receipt of such payment or benefit is not delayed in accordance with the requirements of section 409A(a)(2)(B)(i) of the Code, then such payment or benefit shall not be provided to the Participant (or the Participant's estate, if applicable) until the earlier of (i) the date of the Participant's death or (ii) the date that is six months after the date of the Participant's separation from service with the Company.

(i) **Effect on Prior Plan.** From and after the Effective Date, no further awards or grants will be made under the Prior Plan. The Prior Plan will, however, continue in existence and operation following the Effective Date with respect to awards or grants outstanding under the Prior Plan. From and after the Effective Date, shares available for issuance under the Prior Plan will be subject to the provisions of Section V(a) of the Plan. The Prior Plan is hereby amended as necessary to effect the provisions of Section V(a) of the Plan.

(j) **Governing Law.** The Plan shall be governed by, and construed in accordance with, the laws of the State of Texas, without regard to conflicts of laws principles thereof.

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES AND EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2013

OR

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

Commission file number 1-12154

**Waste Management, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**1001 Fannin Street, Suite 4000**

**Houston, Texas**

*(Address of principal executive offices)*

**73-1309529**

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

**77002**

*(Zip code)*

*Registrant's telephone number, including area code:*

**(713) 512-6200**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class

Name of Exchange on Which Registered

Common Stock, \$.01 par value

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2013 was approximately \$18.8 billion. The aggregate market value was computed by using the closing price of the common stock as of that date on the New York Stock Exchange ("NYSE"). (For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates.)

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at February 7, 2014 was 464,821,875 (excluding treasury shares of 165,460,586).

**DOCUMENTS INCORPORATED BY REFERENCE**

Document

Incorporated as to

Proxy Statement for the  
2014 Annual Meeting of Stockholders

Part III

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## PART I

### Item 1. *Business.*

#### General

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; Waste Management's wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management or its subsidiaries are the primary beneficiaries as described in Note 20 to the Consolidated Financial Statements. Waste Management is a holding company and all operations are conducted by its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term "WM," we are referring only to Waste Management, Inc., the parent holding company.

WM was incorporated in Oklahoma in 1987 under the name "USA Waste Services, Inc." and was reincorporated as a Delaware company in 1995. In a 1998 merger, the Illinois-based waste services company formerly known as Waste Management, Inc. became a wholly-owned subsidiary of WM and changed its name to Waste Management Holdings, Inc. ("WM Holdings"). At the same time, our parent holding company changed its name from USA Waste Services to Waste Management, Inc. Like WM, WM Holdings is a holding company and all operations are conducted by subsidiaries. For detail on the financial position, results of operations and cash flows of WM, WM Holdings and their subsidiaries, see Note 23 to the Consolidated Financial Statements.

Our principal executive offices are located at 1001 Fannin Street, Suite 4000, Houston, Texas 77002. Our telephone number at that address is (713) 512-6200. Our website address is [www.wm.com](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 "WM."

We are North America's leading provider of comprehensive waste management environmental services. We partner with our residential, commercial, industrial and municipal customers and the communities we serve to manage and reduce waste at each stage from collection to disposal, while recovering valuable resources and creating clean, renewable energy. Our "Solid Waste" business is operated and managed locally by our subsidiaries that focus on distinct geographic areas and provides collection, transfer, recycling and resource recovery, and disposal services. Through our subsidiaries, we are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States. During 2013, our largest customer represented less than 2% of annual revenues. We employed approximately 42,700 people as of December 31, 2013.

We own or operate 267 landfill sites, which is the largest network of landfills in our industry. In order to make disposal more practical for larger urban markets, where the distance to landfills or waste-to-energy facilities is typically farther, we manage 300 transfer stations that consolidate, compact and transport waste efficiently and economically. We also use waste to create energy. One method involves recovering the gas produced naturally as waste decomposes in landfills and using the gas in generators to make electricity. Our subsidiary, Wheelabrator Technologies, Inc., also uses waste to create energy by operating highly efficient waste combustion plants that produce clean, renewable energy. We are a leading recycler in North America, handling materials that include paper, cardboard, glass, plastic, metal and electronics. We provide cost-efficient, environmentally sound recycling programs for municipalities, businesses and households across the U.S. and Canada. In addition to traditional waste operations, we are also expanding to increase the service offerings we provide for our customers.

Our Company's goals are targeted at serving our customers, our employees, the environment, the communities in which we work and our stockholders, and achievement of our goals is intended to meet the needs of a changing industry. The waste industry continues to undergo significant changes. Our Company and others have recognized the value of the traditional waste stream as a potential resource. When compared to historical averages, landfill volumes have declined in recent years, as customers are increasingly using alternatives to



traditional disposal, such as recycling, while also working to reduce the waste they generate. Accomplishment of our goals will grow our Company and allow us to meet the needs of our customers and communities as they, too, Think Green®. We believe that helping our customers achieve their environmental goals will enable us to achieve profitable growth.

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

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

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

We believe that execution of our strategy through these key priorities will drive continued growth and leadership in a dynamic industry, as customers increasingly seek non-traditional waste management solutions. In addition, we intend to continue to return value to our stockholders through dividend payments, and our Board of Directors has given management authority to make common stock repurchases. In February 2014, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.365 to \$0.375 per share for dividends declared in 2014, which is a 2.7% increase from the quarterly dividends we declared in 2013. This will result in an increase in the amount of free cash flow that we expect to pay out as dividends for the 11<sup>th</sup> consecutive year and is an indication of our ability to generate strong and consistent cash flows. All quarterly dividends will be declared at the discretion of our Board of Directors.

## **Operations**

### ***General***

We evaluate, oversee and manage the financial performance of our local Solid Waste business subsidiaries through our 17 Areas. See Note 21 to the Consolidated Financial Statements for additional information about our reportable segments. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, as described below. These operations are presented in this report as "Other."

We have expanded certain of our operations through acquisitions, which are discussed further in Note 19 to the Consolidated Financial Statements. In January 2013, we acquired Greenstar, LLC, ("Greenstar"), an operator of recycling and resource recovery facilities. This acquisition provides the Company's customers with greater access to recycling solutions, having supplemented the Company's extensive nationwide recycling network with the operations of one of the nation's largest private recyclers. In July 2013, we acquired substantially all of the assets of RCI Environnement, Inc. ("RCI"), the largest waste management company in Quebec, and certain related entities. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company's existing assets and operations in Quebec.

The table below shows the total revenues (in millions) contributed annually by our Solid Waste and Wheelabrator businesses, in the three-year period ended December 31, 2013. More information about our results of operations is included in Note 21 to the Consolidated Financial Statements and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this report.

|                    | Years Ended December 31, |                 |                 |
|--------------------|--------------------------|-----------------|-----------------|
|                    | 2013                     | 2012            | 2011            |
| Solid Waste .....  | \$13,477                 | \$13,056        | \$12,998        |
| Wheelabrator ..... | 845                      | 846             | 877             |
| Other .....        | 2,185                    | 2,106           | 1,534           |
| Intercompany ..... | (2,524)                  | (2,359)         | (2,031)         |
| Total .....        | <u>\$13,983</u>          | <u>\$13,649</u> | <u>\$13,378</u> |

The services we provide include collection, landfill (solid and hazardous waste landfills), transfer, operation of waste-to-energy facilities and independent power production plants, recycling and resource recovery and other services, as described below. The following table shows revenues (in millions) contributed by these services for each of the three years presented:

|                    | Years Ended December 31, |                 |                 |
|--------------------|--------------------------|-----------------|-----------------|
|                    | 2013                     | 2012            | 2011            |
| Collection .....   | \$ 8,513                 | \$ 8,405        | \$ 8,406        |
| Landfill .....     | 2,790                    | 2,685           | 2,611           |
| Transfer .....     | 1,329                    | 1,296           | 1,280           |
| Wheelabrator ..... | 845                      | 846             | 877             |
| Recycling .....    | 1,447                    | 1,360           | 1,580           |
| Other .....        | 1,583                    | 1,416           | 655             |
| Intercompany ..... | (2,524)                  | (2,359)         | (2,031)         |
| Total .....        | <u>\$13,983</u>          | <u>\$13,649</u> | <u>\$13,378</u> |

*Collection.* Our commitment to customers begins with a vast waste collection network. Collection involves picking up and transporting waste and recyclable materials from where it was generated to a transfer station, material recovery facility ("MRF") or disposal site. We generally provide collection services under one of two types of arrangements:

- For commercial and industrial collection services, typically we have a three-year service agreement. The fees under the agreements are influenced by factors such as collection frequency, type of collection equipment we furnish, type and volume or weight of the waste collected, distance to the disposal facility, labor costs, cost of disposal and general market factors. As part of the service, we provide steel containers to most customers to store their solid waste between pick-up dates. Containers vary in size and type according to the needs of our customers and the restrictions of their communities. Many are designed to be lifted mechanically and either emptied into a truck's compaction hopper or directly into a disposal site. By using these containers, we can service most of our commercial and industrial customers with trucks operated by only one employee.
- For most residential collection services, we have a contract with, or a franchise granted by, a municipality, homeowners' association or some other regional authority that gives us the exclusive right to service all or a portion of the homes in an area. These contracts or franchises are typically for periods of three to six years. We also provide services under individual monthly subscriptions directly to households. The fees for residential collection are either paid by the municipality or authority from their tax revenues or service charges, or are paid directly by the residents receiving the service.



*Landfill.* Landfills are the main depositories for solid waste in North America. At December 31, 2013, we owned or operated 262 solid waste landfills and five secure hazardous waste landfills, which represents the largest network of landfills in North America. Solid waste landfills are constructed and operated on land with engineering safeguards that limit the possibility of water and air pollution, and are operated under procedures prescribed by regulation. A landfill must meet federal, state or provincial, and local regulations during its design, construction, operation and closure. The operation and closure activities of a solid waste landfill include excavation, construction of liners, continuous spreading and compacting of waste, covering of waste with earth or other acceptable material and constructing final capping of the landfill. These operations are carefully planned to maintain environmentally safe conditions and to maximize the use of the airspace.

All solid waste management companies must have access to a disposal facility, such as a solid waste landfill. The significant capital requirements of developing and operating a landfill serve as a barrier to landfill ownership and, as a result, third-party haulers often dispose of waste at our landfills. It is usually preferable for our collection operations to use disposal facilities that we own or operate, a practice we refer to as internalization, rather than using third-party disposal facilities. Internalization generally allows us to realize higher consolidated margins and stronger operating cash flows. The fees charged at disposal facilities, which are referred to as tipping fees, are based on several factors, including competition and the type and weight or volume of solid waste deposited.

Under environmental laws, the federal government (or states with delegated authority) must issue permits for all hazardous waste landfills. All of our hazardous waste landfills have obtained the required permits, although some can accept only certain types of hazardous waste. These landfills must also comply with specialized operating standards. Only hazardous waste in a stable, solid form, which meets regulatory requirements, can be deposited in our secure disposal cells. In some cases, hazardous waste can be treated before disposal. Generally, these treatments involve the separation or removal of solid materials from liquids and chemical treatments that transform waste into inert materials that are no longer hazardous. Our hazardous waste landfills are sited, constructed and operated in a manner designed to provide long-term containment of waste. We also operate a hazardous waste facility at which we isolate treated hazardous waste in liquid form by injection into deep wells that have been drilled in certain acceptable geologic formations far below the base of fresh water to a point that is safely separated by other substantial geological confining layers.

*Transfer.* At December 31, 2013, we owned or operated 300 transfer stations in North America. We deposit waste at these stations, as do other waste haulers. The solid waste is then consolidated and compacted to reduce the volume and increase the density of the waste and transported by transfer trucks or by rail to disposal sites. At December 31, 2013, our medical waste services business (discussed below) also had 15 smaller transfer operations (separate from its 8 processing facilities, but some of which are located at other existing Company facilities) that are permitted to consolidate regulated medical waste collections for disposal.

Access to transfer stations is critical to haulers who collect waste in areas not in close proximity to disposal facilities. Fees charged to third parties at transfer stations are usually based on the type and volume or weight of the waste deposited at the transfer station, the distance to the disposal site and general market factors.

The utilization of our transfer stations by our own collection operations improves internalization by allowing us to retain fees that we would otherwise pay to third parties for the disposal of the waste we collect. It enables us to manage costs associated with waste disposal because (i) transfer trucks, railcars or rail containers have larger capacities than collection trucks, allowing us to deliver more waste to the disposal facility in each trip; (ii) waste is accumulated and compacted at transfer stations that are strategically located to increase the efficiency of our network of operations and (iii) we can retain the volume by managing the transfer of the waste to one of our own disposal sites.

The transfer stations that we operate but do not own generally are operated through lease agreements under which we lease property from third parties. There are some instances where transfer stations are operated under contract, generally for municipalities. In most cases we own the permits and will be responsible for any regulatory requirements relating to the operation and closure of the transfer station.

*Wheelabrator.* As of December 31, 2013, we owned or operated 16 waste-to-energy facilities and four independent power production plants (“IPPs”) which are located in the Northeast, in the Mid-Atlantic, and in Florida, California and Washington.

At our waste-to-energy facilities, solid waste is burned at high temperatures in specially designed boilers to produce heat that is converted into high-pressure steam. As of December 31, 2013, our waste-to-energy facilities were capable of processing up to approximately 23,000 tons of solid waste each day. In 2013, our waste-to-energy facilities received and processed 8 million tons of solid waste, or approximately 21,000 tons per day.

Our IPPs convert various waste and conventional fuels into steam. The plants burn wood waste, anthracite coal waste (culm), tires, landfill gas and natural gas. These facilities are integral to the solid waste industry, disposing of urban wood, waste tires, railroad ties and utility poles. Our anthracite culm facility in Pennsylvania processes the waste materials left over from coal mining operations from over half a century ago. Ash remaining after burning the culm is used to reclaim the land damaged by decades of coal mining.

We generate steam at our waste-to-energy and IPPs facilities for the production of electricity. We sell the electricity produced at our facilities into wholesale markets, which include investor-owned utilities, power marketers and regional power pools. Some of our facilities also sell steam directly to end users. Fees charged for electricity and steam at our waste-to-energy facilities and IPPs have generally been subject to the terms and conditions of long-term contracts that include interim adjustments to the prices charged for changes in market conditions such as inflation, electricity prices and other general market factors. In recent years several of our long-term energy contracts and short-term pricing arrangements expired, significantly increasing our waste-to-energy revenues’ exposure to volatility attributable to changes in market prices for electricity, which generally correlate with fluctuations in natural gas prices in the markets in which we operate. Our market-price volatility will continue to increase as additional long-term contracts expire. We use short-term, “receive fixed, pay variable” electricity commodity swaps to reduce the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. Refer to the *Quantitative and Qualitative Disclosures About Market Risk* section of this report for additional information about the Company’s current considerations related to the management of this market exposure.

In 2013, we continued to look at opportunities to expand our waste-to-energy business. In recent years, we have partnered with third parties to invest in the expansion of waste-to-energy assets and services in the United Kingdom and China. While there has not been any meaningful expansion of the network of waste-to-energy disposal facilities in the U.S. during this time, we have invested significant efforts in Europe and China to further develop these assets. We have made investments in partnerships and joint ventures in the United Kingdom and China in order to use our expertise as an owner and operator of waste-to-energy facilities to participate in this growth opportunity. The investments we have made are discussed further in Note 20 to the Consolidated Financial Statements.

*Recycling.* Our recycling operations provide communities and businesses with an alternative to traditional landfill disposal and support our strategic goals to extract more value from the materials we manage. In 2001, we became the first major solid waste company to focus on residential single-stream recycling, which allows customers to mix recyclable paper, plastic and glass in one bin. Residential single-stream programs have greatly increased the recycling rates. Single-stream recycling is possible through the use of various mechanized screens and optical sorting technologies. We have also been advancing the single-stream recycling programs for commercial applications. Recycling involves the separation of reusable materials from the waste stream for processing and resale or other disposition. Our recycling operations include the following:

*Materials processing* — Through our collection operations, we collect recyclable materials from residential, commercial and industrial customers and direct these materials to one of our MRFs for processing. We operate 120 MRFs where paper, cardboard, metals, plastics, glass, construction and demolition materials and other recyclable commodities are recovered for resale. We also operate five secondary processing facilities where recyclable materials can be further processed into raw products used in the manufacturing of consumer goods. Materials processing services include data destruction and automated color sorting.

*Plastics materials recycling* — Using state-of-the-art sorting and processing technology, we process, inventory and sell plastic commodities making the recycling of such items more cost effective and convenient.

*Commodities recycling* — We market and resell recyclable commodities to customers world-wide. We manage the marketing of recyclable commodities that are processed in our facilities by maintaining comprehensive service centers that continuously analyze market prices, logistics, market demands and product quality.

Fees for recycling services are influenced by the type of recyclable commodities being processed, the volume or weight of the recyclable material, degree of processing required, the market value of the recovered material and other market factors.

Some of the recyclable materials processed in our MRFs are purchased from various sources, including third parties and our own operations. The cost per ton of material purchased is based on market prices and the cost to transport the processed goods to our customers to whom we sell such materials. The price we pay for recyclable materials is often referred to as a “rebate.” Rebates generally are based upon the price we receive for sales of processed goods and on market conditions, but in some cases are based on fixed contractual rates or on defined minimum per-ton rates. As a result, changes in commodity prices for recycled fiber can significantly affect our revenues, the rebates we pay to our suppliers and our operating income from operations margins.

*Other.* Other services we provide include the following:

We provide recycling brokerage services, which involve managing the marketing of recyclable materials for third parties. The experience of our recycling operations in managing recyclable commodities for our own operations gives us the expertise needed to effectively manage volumes for third parties. Utilizing the resources and knowledge of our recycling operations’ service centers, we can assist customers in marketing and selling their recyclable commodities with minimal capital requirements. We also provide electronics recycling. We recycle discarded computers, communications equipment, and other electronic equipment. Services include the collection, sorting and disassembling of electronics in an effort to reuse or recycle all collected materials. In recent years, we have teamed with major electronics manufacturers to offer comprehensive “take-back” programs of their products to assist the general public in disposing of their old electronics in a convenient and environmentally safe manner.

Our WM Sustainability Services organization offers our customers in all Areas a variety of services in collaboration with our Area and strategic accounts programs, including (i) in-plant services, where our employees work full-time inside our customers’ facilities to provide full-service waste management solutions and consulting services; (ii) specialized disposal services for oil and gas exploration and production operations and (iii) services associated with the disposal of fly ash, residue generated from the combustion of coal and other fuel stocks. Our vertically integrated waste management operations enable us to provide customers with full management of their waste. The breadth of our service offerings and the familiarity we have with waste management practices gives us the unique ability to assist customers in minimizing the amount of waste they generate, identifying recycling opportunities and determining the most efficient means available for waste collection and disposal.

We develop, operate and promote projects for the beneficial use of landfill gas through our WM Renewable Energy Program. Landfill gas is produced naturally as waste decomposes in a landfill. The methane component of the landfill gas is a readily available, renewable energy source that can be gathered and used beneficially as an alternative to fossil fuel. The EPA endorses landfill gas as a renewable energy resource, in the same category as wind, solar and geothermal resources. At December 31, 2013, we had 137 landfill gas beneficial use projects producing commercial quantities of methane gas at 124 of our solid waste landfills and four third-party landfills. At 109 of these landfills, the processed gas is used to fuel electricity generators. The electricity is then sold to public utilities, municipal utilities or power cooperatives. At 17 landfills, the gas is used at the landfill or delivered by pipeline to industrial customers as a direct substitute for fossil fuels in industrial processes. At 10 landfills, the landfill gas is processed to pipeline-quality natural gas and then sold to natural gas suppliers. At one landfill, the gas is processed into liquefied natural gas and used as vehicle fuel.

Although many waste management services such as collection and disposal are local services, our strategic accounts program works with customers whose locations span the United States. Our strategic accounts program provides centralized customer service, billing and management of accounts to streamline the administration of customers' multiple and nationwide locations' waste management needs. In 2011, we acquired Oakleaf Global Holdings and its primary operations ("Oakleaf"), which provides outsourced waste and recycling services through a nationwide network of third-party haulers. Oakleaf has increased our strategic accounts customer base and enhanced our ability to provide comprehensive environmental solutions.

We continue to invest in businesses and technologies that are designed to offer services and solutions ancillary or supplementary to our current operations. These investments include joint ventures, acquisitions and partial ownership interests. The solutions and services include the collection of project waste, including construction debris and household or yard waste, through our Bagster® program; the development, operation and marketing of plasma gasification facilities; operation of a landfill gas-to-liquid natural gas plant; solar powered trash compactors; and organic waste-to-fuel conversion technology. Part of our expansion of services includes offering portable self-storage services; fluorescent bulb and universal waste mail-back through our LampTracker® program; and a sharps mail return program through which individuals can safely dispose of their used syringes and lancets using our MedWaste Tracker® system. In addition, we have made investments that involve the acquisition and development of interests in oil and gas producing properties. Finally, we rent portable restroom facilities to municipalities and commercial customers under the name Port-o-Let®, we service such facilities and we provide street and parking lot sweeping services.

## **Competition**

We encounter intense competition from governmental, quasi-governmental and private sources in all aspects of our operations. In North America, the industry consists primarily of two national waste management companies and regional and local companies of varying sizes and financial resources, including companies that specialize in certain discrete areas of waste management, operators of alternative disposal facilities and companies that seek to use parts of the waste stream as feedstock for renewable energy and other by-products. Some of our regional competitors can be significant competitors in local markets and are pursuing aggressive regional growth strategies. We compete with these companies as well as with counties and municipalities that maintain their own waste collection and disposal operations.

Operating costs, disposal costs and collection fees vary widely throughout the areas in which we operate. The prices that we charge are determined locally, and typically vary by volume and weight, type of waste collected, treatment requirements, risk of handling or disposal, frequency of collections, distance to final disposal sites, the availability of airspace within the geographic region, labor costs and amount and type of equipment furnished to the customer. We face intense competition in our Solid Waste business based on pricing and quality of service. We have also begun competing for business based on service offerings. As companies, individuals and communities look for ways to be more sustainable, we are investing in greener technologies and promoting our comprehensive services that go beyond our core business of collecting and disposing of waste.

## **Seasonal Trends**

Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While

weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

## Employees

At December 31, 2013, we had approximately 42,700 full-time employees, of which approximately 7,400 were employed in administrative and sales positions and the balance in operations. Approximately 9,200 of our employees are covered by collective bargaining agreements.

## Financial Assurance and Insurance Obligations

### *Financial Assurance*

Municipal and governmental waste service contracts generally require contracting parties to demonstrate financial responsibility for their obligations under the contract. Financial assurance is also a requirement for (i) obtaining or retaining disposal site or transfer station operating permits; (ii) supporting variable-rate tax-exempt debt and (iii) estimated final capping, closure, post-closure and environmental remedial obligations at many of our landfills.

We establish financial assurance using surety bonds, letters of credit, insurance policies, trust and escrow agreements and financial guarantees. The type of assurance used is based on several factors, most importantly: the jurisdiction, contractual requirements, market factors and availability of credit capacity. The following table summarizes the various forms and dollar amounts (in millions) of financial assurance that we had outstanding as of December 31, 2013:

|                                                     |                       |
|-----------------------------------------------------|-----------------------|
| Surety bonds:                                       |                       |
| Issued by consolidated subsidiary(a) . . . . .      | \$ 181                |
| Issued by affiliated entity(b) . . . . .            | 1,079                 |
| Issued by third-party surety companies . . . . .    | <u>2,172</u>          |
| Total surety bonds . . . . .                        | \$3,432               |
| Letters of credit:                                  |                       |
| Revolving credit facilities(c) . . . . .            | 872                   |
| Letter of credit facilities(d) . . . . .            | 400                   |
| Other lines of credit . . . . .                     | <u>267</u>            |
| Total letters of credit . . . . .                   | 1,539                 |
| Insurance policies:                                 |                       |
| Issued by consolidated subsidiary(a) . . . . .      | 1,157                 |
| Issued by affiliated entity(b) . . . . .            | 32                    |
| Issued by third-party insurance companies . . . . . | <u>212</u>            |
| Total insurance policies . . . . .                  | 1,401                 |
| Funded trust and escrow accounts(e) . . . . .       | 140                   |
| Financial guarantees(f) . . . . .                   | <u>117</u>            |
| Total financial assurance(g) . . . . .              | <u><u>\$6,629</u></u> |

- (a) We use surety bonds and insurance policies issued by a wholly-owned insurance subsidiary, National Guaranty Insurance Company of Vermont, the sole business of which is to issue financial assurance on our behalf. National Guaranty Insurance Company is authorized to write up to approximately \$1.5 billion in surety bonds or insurance policies for our final capping, closure and post-closure requirements, waste collection contracts and other business-related obligations.



- (b) We hold a noncontrolling interest in an entity that we use to obtain financial assurance. Our contractual agreement with this entity does not specifically limit the amounts of surety bonds or insurance that we may obtain, making our financial assurance under this agreement limited only by the guidelines and restrictions of surety and insurance regulations.
- (c) WM has a \$2.25 billion revolving credit facility with a term extending through July 2018. At December 31, 2013, we had \$420 million of outstanding borrowings and \$872 million of letters of credit issued and supported by the facility. The unused and available credit capacity of the facility was \$958 million as of December 31, 2013. We also have a C\$150 million revolving credit facility which matures in November 2017 and provides for up to C\$50 million of letter of credit capacity. At December 31, 2013, we had no letters of credit outstanding under this facility and outstanding borrowings of C\$10 million. The unused and available credit capacity of this facility was C\$140 million as of December 31, 2013, of which C\$50 million may be used for letters of credit.
- (d) We have an aggregate committed capacity of \$400 million under letter of credit facilities with terms ending through December 2016. This letter of credit capacity was fully utilized as of December 31, 2013.
- (e) Our funded trust and escrow accounts generally have been established to support landfill final capping, closure, post-closure and environmental remediation obligations and our performance under various operating contracts. Balances maintained in these trust funds and escrow accounts will fluctuate based on (i) changes in statutory requirements; (ii) future deposits made to comply with contractual arrangements; (iii) the use of funds for qualifying activities; (iv) acquisitions or divestitures of landfills and (v) changes in the fair value of the financial instruments held in the trust fund or escrow accounts. The assets held in our funded trust and escrow accounts may be drawn and used to meet the obligations for which the trusts and escrows were established.
- (f) Financial guarantees are provided primarily to support our performance of landfill final capping, closure and post-closure activities. The amount of financial assurance provided by such guarantees is dependent upon measures of our tangible net worth and other criteria.
- (g) The amount of financial assurance required can, and generally will, differ from the obligation determined and recorded under U.S. Generally Accepted Accounting Principles ("GAAP").

The assets held in our funded trust and escrow accounts may be drawn and used to meet the closure, post-closure and remedial obligations for which the trusts and escrows were established. Other than these permitted draws on funds, virtually no claims have been made against our financial assurance instruments in the past, and considering our current financial position, management does not expect there to be claims against these instruments that will have a material adverse effect on our Consolidated Financial Statements. In an ongoing effort to mitigate the risks of future cost increases and reductions in available capacity, we are continually evaluating various options to access cost-effective sources of financial assurance.

### ***Insurance***

We carry a broad range of insurance coverages, including general liability, automobile liability, real and personal property, workers' compensation, directors' and officers' liability, pollution legal liability, business interruption 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. As of December 31, 2013, our commercial General Liability Insurance Policy carried self-insurance exposures of up to \$2.5 million per incident and our workers' compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2013, our auto liability insurance program included a per-incident base deductible of \$5 million, subject to additional deductibles of \$4.8 million in the \$5 million to \$10 million layer. 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. Our estimated insurance liabilities as of December 31, 2013 are summarized in Note 11 to the Consolidated Financial Statements.

The Directors' and Officers' Liability Insurance policy we choose to maintain covers only individual executive liability, often referred to as "Broad Form Side A," and does not provide corporate reimbursement coverage, often referred to as "Side B." The Side A policy covers directors and officers directly for loss,

including defense costs, when corporate indemnification is unavailable. Side A-only coverage cannot be exhausted by payments to the Company, as the Company is not insured for any money it advances for defense costs or pays as indemnity to the insured directors and officers.

## **Regulation**

Our business is subject to extensive and evolving federal, state or provincial and local environmental, health, safety and transportation laws and regulations. These laws and regulations are administered by the U.S. Environmental Protection Agency (“EPA”), Environment Canada, and various other federal, state, provincial and local environmental, zoning, transportation, land use, health and safety agencies in the United States and Canada. Many of these agencies regularly examine our operations to monitor compliance with these laws and regulations and have the power to enforce compliance, obtain injunctions or impose civil or criminal penalties in case of violations. In recent years, we have perceived an increase in both the amount of government regulation and the number of enforcement actions being brought by regulatory entities against operations in the waste services industry. We expect this heightened governmental focus on regulation and enforcement to continue.

Because the primary mission of our business is to collect and manage solid waste in an environmentally sound manner, a significant amount of our capital expenditures are related, either directly or indirectly, to environmental protection measures, including compliance with federal, state or provincial and local rules. There are costs associated with siting, design, permitting, operations, monitoring, site maintenance, corrective actions, financial assurance, and facility closure and post-closure obligations. In connection with our acquisition, development or expansion of a management or disposal facility or transfer station, we must often spend considerable time, effort and money to obtain or maintain required permits and approvals. There are no assurances that we will be able to obtain or maintain required governmental approvals. Once obtained, operating permits are subject to renewal, modification, suspension or revocation by the issuing agency. Compliance with current regulations and future requirements could require us to make significant capital and operating expenditures. However, most of these expenditures are made in the normal course of business and do not place us at any competitive disadvantage.

The primary United States federal statutes affecting our business are summarized below:

- The Resource Conservation and Recovery Act of 1976 (“RCRA”), as amended, regulates handling, transporting and disposing of hazardous and non-hazardous waste and delegates authority to states to develop programs to ensure the safe disposal of solid waste. In 1991, the EPA issued its final regulations under Subtitle D of RCRA, which set forth minimum federal performance and design criteria for solid waste landfills. These regulations are typically implemented by the states, although states can impose requirements that are more stringent than the Subtitle D standards. We incur costs in complying with these standards in the ordinary course of our operations.
- The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (“CERCLA”) which is also known as Superfund, provides for federal authority to respond directly to releases or threatened releases of hazardous substances into the environment that have created actual or potential environmental hazards. CERCLA’s primary means for addressing such releases is to impose strict liability for cleanup of disposal sites upon current and former site owners and operators, generators of the hazardous substances at the site and transporters who selected the disposal site and transported substances thereto. Liability under CERCLA is not dependent on the intentional disposal of hazardous substances; it can be based upon the release or threatened release, even as a result of lawful, unintentional and non-negligent action, of hazardous substances as the term is defined by CERCLA and other applicable statutes and regulations. The EPA may issue orders requiring responsible parties to perform response actions at sites, or the EPA may seek recovery of funds expended or to be expended in the future at sites. Liability may include contribution for cleanup costs incurred by a defendant in a CERCLA civil action or by an entity that has previously resolved its liability to federal or state regulators in an administrative or judicially-approved settlement. Liability under CERCLA could also include obligations to a potentially responsible party, or PRP, that voluntarily expends site clean-up costs. Further, liability for damage to publicly-owned natural resources may also be imposed. We are subject to potential liability

under CERCLA as an owner or operator of facilities at which hazardous substances have been disposed and as a generator or transporter of hazardous substances disposed of at other locations.

- The Federal Water Pollution Control Act of 1972, as amended, known as the Clean Water Act, regulates the discharge of pollutants into streams, rivers, groundwater, or other surface waters from a variety of sources, including solid and hazardous waste disposal sites. If run-off from our operations may be discharged into surface waters, the Clean Water Act requires us to apply for and obtain discharge permits, conduct sampling and monitoring, and, under certain circumstances, reduce the quantity of pollutants in those discharges. In 1990, the EPA issued additional standards for management of storm water runoff that require landfills and other waste-handling facilities to obtain storm water discharge permits. In addition, if a landfill or other facility discharges wastewater through a sewage system to a publicly-owned treatment works, the facility must comply with discharge limits imposed by the treatment works. Also, before the development or expansion of a landfill can alter or affect “wetlands,” a permit may have to be obtained providing for mitigation or replacement wetlands. The Clean Water Act provides for civil, criminal and administrative penalties for violations of its provisions.
- The Clean Air Act of 1970, as amended, provides for increased federal, state and local regulation of the emission of air pollutants. Certain of our operations are subject to the requirements of the Clean Air Act, including large municipal solid waste landfills and municipal waste-to-energy facilities. In 1996 the EPA issued new source performance standards and emission guidelines controlling landfill gases from new and existing large landfills. In January 2003, the EPA issued Maximum Achievable Control Technology (“MACT”) standards for municipal solid waste landfills subject to the new source performance standards. These regulations impose limits on air emissions from large municipal solid waste landfills, subject most of our large municipal solid waste landfills to certain operating permit requirements under Title V of the Clean Air Act and, in many instances, require installation of landfill gas collection and control systems to control emissions or to treat and utilize landfill gas on- or off-site. The EPA entered into a settlement agreement with the Environmental Defense Fund to evaluate the 1996 new source performance standards and emission guidelines for new and existing landfills as required by the Clean Air Act every eight years and revise them if deemed necessary. The EPA is scheduled to issue a proposed rule in February 2014 and finalize the rule in December 2014. Should the EPA adopt more stringent requirements, additional landfills may become subject to the rule and related capital expenditures and operating costs may increase. However, we do not believe that the regulatory changes would have a material adverse impact on our business as a whole.

The EPA has also issued new source performance standards and emission guidelines for large and small municipal waste-to-energy facilities, which include stringent emission limits for various pollutants based on Maximum Achievable Control Technology standards. These sources are also subject to operating permit requirements under Title V of the Clean Air Act. The Clean Air Act requires the EPA to review and revise the MACT standards applicable to municipal waste-to-energy facilities every five years. The EPA has not initiated or announced a schedule for the required review of the standards for large waste-to-energy facilities, so we are not yet able to evaluate potential operating changes or costs associated with possible regulatory revisions.

Additionally, standards have been imposed on manufacturers of transportation vehicles (including waste collection vehicles). The EPA continues to evaluate and develop regulations to increase fuel economy standards and reduce vehicle emissions; such regulations could increase the costs of operating our fleet, but we do not believe any such regulations would have a material adverse impact on our business as a whole.

- The Occupational Safety and Health Act of 1970, as amended, (“OSHA”) establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated by the Occupational Safety and Health Administration, and various reporting and record keeping obligations as well as disclosure and procedural requirements. Various standards for notices of hazards, safety in excavation and demolition work and the handling of asbestos, may apply to our operations. The Department of Transportation and OSHA, along with other federal agencies, have jurisdiction over certain aspects of hazardous materials and hazardous



waste, including safety, movement and disposal. Various state and local agencies with jurisdiction over disposal of hazardous waste may seek to regulate movement of hazardous materials in areas not otherwise preempted by federal law.

We are also actively monitoring the following recent developments in United States federal regulations affecting our business:

- In 2010, the EPA issued the Prevention of Significant Deterioration (“PSD”) and Title V Greenhouse Gas (“GHG”) Tailoring Rule, which expanded the EPA’s federal air permitting authority to include the six GHGs, including methane and carbon dioxide. The rule sets new thresholds for GHG emissions that define when Clean Air Act permits are required. The requirements of these rules have not significantly affected our operations or cash flows, due to the tailored thresholds and exclusions of certain emissions from regulation. Air permits for new and modified large municipal solid waste landfills, waste-to-energy facilities and landfill gas-to-energy facilities could be affected. However, the degree of impact is dependent upon the EPA’s final determination on permitting of biogenic carbon dioxide emissions, as well as the EPA’s or implementing states’ determinations on what may constitute “Best Available Control Technology” for new projects exceeding certain thresholds. In addition, recent final and proposed rules to increase the stringency of certain National Ambient Air Quality Standards and related PSD increment/significance thresholds could affect the cost, timeliness and availability of air permits for new and modified large municipal solid waste landfills, waste-to-energy facilities and landfill gas-to-energy facilities. In general, controlling emissions involves installing collection wells in a landfill and routing the gas to a suitable energy recovery system or combustion device. At December 31, 2013, we had 137 projects at solid waste landfills where landfill gas was captured and utilized for its renewable energy value rather than flared. Efforts to curtail the emission of GHGs and to ameliorate the effect of climate change may require our landfills to deploy more stringent emission controls, with associated capital or operating costs; however, we do not believe that such regulations will have a material adverse impact on our business as a whole. See Item 1A. Risk Factors — “The adoption of climate change legislation or regulations restricting emissions of “greenhouse gases” could increase our costs to operate.” We are striving to anticipate the future needs of our customers by investing in and developing ever-more-advanced recycling and reuse technologies. Potential climate change and GHG regulatory initiatives have influenced our business strategy to provide low-carbon services to our customers, and we increasingly view our ability to offer lower carbon services as a key component of our business growth. If the U.S. were to impose a carbon tax or other form of GHG regulation increasing demand for low-carbon service offerings in the future, the services we are developing will be increasingly valuable.
- In 2011, the EPA published the Non-Hazardous Secondary Materials (“NHSM”) Rule, which provides the standards and procedures for identifying whether NHSM are solid waste under RCRA when used as fuels or ingredients in combustion units. The EPA also published new source performance standards and emission guidelines for commercial and industrial solid waste incineration units, and Maximum Achievable Control Technology Standards for commercial and industrial boilers. The EPA published clarifications and amendments to these rules in 2013, and there is litigation surrounding the rules. Although the recently published amendments are generally favorable to our industry, some of the potential regulatory interpretations are undergoing review and other regulatory outcomes may be dependent on case-by-case administrative determinations. These could have a significant impact on some of our projects in which we are seeking to convert biomass or other secondary materials into products, fuels or energy. Therefore, it is not possible to quantify the financial impact of these rulemakings or pending administrative determinations at the present time. However, we believe the rules and administrative determinations will not have a material adverse impact on our business as a whole and are more likely to facilitate our efforts to reuse or recover energy value from secondary material streams.

### *State, Provincial and Local Regulations*

There are also various state or provincial and local regulations that affect our operations. Each state and province in which we operate has its own laws and regulations governing solid waste disposal, water and air pollution, and, in most cases, releases and cleanup of hazardous substances and liabilities for such matters. States and provinces have also adopted regulations governing the design, operation, maintenance and closure of landfills and transfer stations. Some counties, municipalities and other local governments have adopted similar laws and regulations. Our facilities and operations are likely to be subject to these types of requirements.

Our landfill and waste-to-energy operations are affected by the increasing preference for alternatives to landfill and waste-to-energy disposal. Several state and local governments mandate recycling and waste reduction at the source and prohibit the disposal of certain types of waste, such as yard and food waste, at landfills or waste-to-energy facilities. Legislative and regulatory measures to mandate or encourage waste reduction at the source and waste recycling also have been or are under consideration by the U.S. Congress and the EPA.

Various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid waste generated outside the state. While laws that overtly discriminate against out-of-state waste have been found to be unconstitutional, some laws that are less overtly discriminatory have been upheld in court. From time to time, the United States Congress has considered legislation authorizing states to adopt regulations, restrictions, or taxes on the importation of out-of-state or out-of-jurisdiction waste. Additionally, several state and local governments have enacted “flow control” regulations, which attempt to require that all waste generated within the state or local jurisdiction be deposited at specific sites. In 1994, the United States Supreme Court ruled that a flow control ordinance that gave preference to a local facility that was privately owned was unconstitutional, but in 2007, the Court ruled that an ordinance directing waste to a facility owned by the local government was constitutional. The United States Congress’ adoption of legislation allowing restrictions on interstate transportation of out-of-state or out-of-jurisdiction waste or certain types of flow control, or courts’ interpretations of interstate waste and flow control legislation, could adversely affect our solid and hazardous waste management services.

Additionally, regulations establishing extended producer responsibility (“EPR”) are being considered or implemented in many places around the world, including in Canada and the U.S. EPR regulations are designed to place either partial or total responsibility on producers to fund the post-use life cycle of the products they create. Along with the funding responsibility, producers may be required to take over management of local recycling programs by taking back their products from end users or managing the collection operations and recycling processing infrastructure. There is no federal law establishing EPR in the U.S. or Canada; however, state, provincial and local governments could, and in some cases have, taken steps to implement EPR regulations. If wide-ranging EPR regulations were adopted, they could have a fundamental impact on the waste, recycling and other streams we manage and how we operate our business, including contract terms and pricing.

Many states, provinces and local jurisdictions have enacted “fitness” laws that allow the agencies that have jurisdiction over waste services contracts or permits to deny or revoke these contracts or permits based on the applicant’s or permit holder’s compliance history. Some states, provinces and local jurisdictions go further and consider the compliance history of the parent, subsidiaries or affiliated companies, in addition to the applicant or permit holder. These laws authorize the agencies to make determinations of an applicant’s or permit holder’s fitness to be awarded a contract to operate, and to deny or revoke a contract or permit because of unfitness, unless there is a showing that the applicant or permit holder has been rehabilitated through the adoption of various operating policies and procedures put in place to assure future compliance with applicable laws and regulations.

### *Foreign Export Regulation*

Enforcement or implementation of foreign regulations can affect our ability to export products. In 2013, the Chinese government began to strictly enforce regulations that establish limits on moisture and non-conforming materials that may be contained in imported recycled paper and plastics. The higher quality expectations

resulting from initiatives such as “Operation Green Fence” can drive up operating costs in the recycling industry, particularly for single stream MRFs. Single stream MRFs process a wide range of materials and tend to receive a higher percentage of the material being scrutinized by the Chinese government, which resulted in increased processing and residual disposal costs. Despite these increased costs, we believe we are well positioned among our potential competitors to respond to and comply with such regulations. We are revising our service agreements to address these increased costs and are working with stakeholders to educate the general public on the need to recycle properly.

#### *Hydraulic Fracturing Regulation*

Our Energy Service line of business provides specialized environmental management and disposal services for oil and gas exploration and production operations. Recently, there has been increased attention from the public, some states and the EPA on the alleged potential for hydraulic fracturing to impact drinking water supplies. Increased regulation of hydraulic fracturing and new rules regarding the treatment and disposal of wastes associated with exploration and production operations could increase our costs to provide oilfield services and reduce our margins and revenue from such services. On the other hand, we believe the size, capital structure, regulatory sophistication and established reliability of our Company provide us with an advantage in providing services that must comply with any complex regulatory regime that may govern providing oilfield waste services.

#### *Emissions from Natural Gas Fueling and Infrastructure*

We currently operate the largest compressed natural gas (“CNG”) fleet in the waste industry, and we plan to continue to transition a significant portion of our collection fleet from diesel fuel to CNG. We have constructed and operate 58 natural gas fueling stations, 27 of which also serve the public or pre-approved third parties, in 24 states and two Canadian provinces. Concerns have been raised about the potential for emissions from the fueling stations and infrastructure that serve natural gas-fueled vehicles. We have partnered with the environmental organization Environmental Defense Fund, as well as other heavy-duty equipment users and experts, on an emissions study to be made available to policy makers. We anticipate that this comprehensive study of emissions from our heavy-duty fleet may ultimately result in regulations that will affect equipment manufacturers and will define operating procedures across the industry. Additional regulation of, or restrictions on, CNG fueling infrastructure or reductions in associated tax incentives could increase our operating costs. We are not yet able to evaluate potential operating changes or costs associated with such regulations, but we do not anticipate that such regulations would have a material adverse impact on our business or our current plan to continue transitioning to CNG vehicles.

#### *Federal, State and Local Climate Change Initiatives*

In light of regulatory and business developments related to concerns about climate change, we have identified a strategic business opportunity to provide our public and private sector customers with sustainable solutions to reduce their GHG emissions. As part of our on-going marketing evaluations, we assess customer demand for and opportunities to develop waste services offering verifiable carbon reductions, such as waste reduction, increased recycling, and conversion of landfill gas and discarded materials into electricity and fuel. We use carbon life cycle tools in evaluating potential new services and in establishing the value proposition that makes us attractive as an environmental service provider. We are active in support of public policies that encourage development and use of lower carbon energy and waste services that lower users’ carbon footprints. We understand the importance of broad stakeholder engagement in these endeavors, and actively seek opportunities for public policy discussion on more sustainable materials management practices. In addition, we work with stakeholders at the federal and state level in support of legislation that encourages production and use of renewable, low-carbon fuels and electricity.

We continue to assess the physical risks to company operations from the effects of severe weather events and use risk mitigation planning to increase our resiliency in the face of such events. We are investing in infrastructure to withstand more severe storm events, which may afford us a competitive advantage and reinforce our reputation as a reliable service provider through continued service in the aftermath of such events.

## **Item 1A. Risk Factors.**

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

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

You should view these statements with caution. These statements are not guarantees of future performance, circumstances or events. They are based on facts and circumstances known to us as of the date the statements are made. All aspects of our business are subject to uncertainties, risks and other influences, many of which we do not control. Any of these factors, either alone or taken together, could have a material adverse effect on us and could change whether any forward-looking statement ultimately turns out to be true. Additionally, we assume no obligation to update any forward-looking statement as a result of future events, circumstances or developments. The following discussion should be read together with the Consolidated Financial Statements and the notes thereto. Outlined below are some of the risks that we believe could affect our business and financial statements for 2014 and beyond and that could cause actual results to be materially different from those that may be set forth in forward-looking statements made by the Company.

***The waste industry is highly competitive, and if we cannot successfully compete in the marketplace, our business, financial condition and operating results may be materially adversely affected.***

We encounter intense competition from governmental, quasi-governmental and private sources in all aspects of our operations. In North America, the industry consists primarily of two national waste management companies and regional and local companies of varying sizes and financial resources, including companies that specialize in certain discrete areas of waste management, operators of alternative disposal facilities and companies that seek to use parts of the waste stream as feedstock for renewable energy and other by-products. Some of our regional competitors can be significant competitors in local markets and are pursuing aggressive regional growth strategies. We compete with these companies as well as with counties and municipalities that maintain their own waste collection and disposal operations. These counties and municipalities may have financial competitive advantages because tax revenues are available to them and tax-exempt financing is more readily available to them. Also, such governmental units may attempt to impose flow control or other restrictions that would give them a competitive advantage. In addition, some of our competitors may have lower financial expectations, allowing them to reduce their prices to expand sales volume or to win competitively-bid contracts, including large national accounts and exclusive franchise arrangements with municipalities. When this happens, we may lose customers and be unable to execute our pricing strategy, resulting in a negative impact to our revenue growth from yield on base business.

***If we fail to implement our business strategy, our financial performance and our growth could be materially and adversely affected.***

Our future financial performance and success are dependent in large part upon our ability to implement our business strategy successfully. Implementation of our strategy will require effective management of our operational, financial and human resources and will place significant demands on those resources. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — *Overview* for more information on our business strategy.

There are risks involved in pursuing our strategy, including the following:

- Our strategy may result in a significant change to our business, and our employees, customers or investors may not embrace and support our strategy.
- We may not be able to hire or retain the personnel necessary to manage our strategy effectively.
- Customer segmentation could result in fragmentation of our efforts, rather than improved customer relationships.
- In efforts to enhance our revenues, we have implemented price increases and environmental fees, and we have continued our fuel surcharge program to offset fuel costs. The loss of volumes as a result of price increases may negatively affect our cash flows or results of operations.
- We may be unsuccessful in implementing improvements to operational efficiency and such efforts may not yield the intended result.
- Our restructuring may not achieve and/or maintain the goals and cost savings intended.
- On-going rationalization of our asset portfolio following our restructuring may result in impairments to our assets. See Item 1A. Risk Factors — We may record material charges against earnings due to any number of events that could cause impairments to our assets.
- Our ability to make strategic acquisitions and to invest in technologies depends on our ability to identify desirable acquisition or investment targets, negotiate advantageous transactions despite competition for such opportunities, fund such acquisitions on favorable terms, and realize the benefits we expect from those transactions.
- Acquisitions, investments and/or new service offerings may not increase our earnings in the timeframe anticipated, or at all, due to difficulties operating in new markets or providing new service offerings, failure of emerging technologies to perform as expected, failure to operate within budget, integration issues, or regulatory issues, among others.
- Integration of acquisitions, investments and/or new services offerings could increase our exposure to the risk of inadvertent noncompliance with applicable laws and regulations.
- Execution of our strategy may cause us to incur substantial research and development costs, make substantial investments in emerging technologies and/or incur additional indebtedness, which may divert capital away from our traditional business operations.
- We continue to seek to divest underperforming and non-strategic assets if we cannot improve their profitability. We may not be able to successfully negotiate the divestiture of underperforming and non-strategic operations, which could result in asset impairments or the continued operation of low-margin businesses.

In addition to the risks set forth above, implementation of our business strategy could also be affected by a number of factors beyond our control, such as increased competition, legal developments, government regulation, general economic conditions, increased operating costs or expenses and changes in industry trends. We may decide to alter or discontinue certain aspects of our business strategy at any time. If we are not able to implement our business strategy successfully, our long-term growth and profitability may be adversely affected. Even if we are able to implement some or all of the initiatives of our business strategy successfully, our operating results may not improve to the extent we anticipate, or at all.

***Compliance with existing or future regulations and/or enforcement of such regulations may restrict or change our operations, increase our operating costs or require us to make additional capital expenditures.***

Stringent government regulations at the federal, state, provincial, and local level in the United States and Canada have a substantial impact on our business, and compliance with such regulations is costly. A large number of complex laws, rules, orders and interpretations govern environmental protection, health, safety, land use, zoning, transportation and related matters. In recent years, we have perceived an increase in both the amount



of government regulation and the number of enforcement actions being brought by regulatory entities against operations in the waste services industry. We expect this heightened governmental focus on regulation and enforcement to continue. Among other things, governmental regulations and enforcement actions may restrict our operations and adversely affect our financial condition, results of operations and cash flows by imposing conditions such as:

- limitations on siting and constructing new waste disposal, transfer, recycling or processing facilities or on expanding existing facilities;
- limitations, regulations or levies on collection and disposal prices, rates and volumes;
- limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste;
- mandates regarding the management of solid waste, including requirements to recycle, divert or otherwise process certain waste, recycling and other streams; or
- limitations or restrictions on the recycling, processing or transformation of waste, recycling and other streams.

Regulations affecting the siting, design and closure of landfills could require us to undertake investigatory or remedial activities, curtail operations or close landfills temporarily or permanently. Future changes in these regulations may require us to modify, supplement or replace equipment or facilities. The costs of complying with these regulations could be substantial.

In order to develop, expand or operate a landfill or other waste management facility, we must have various facility permits and other governmental approvals, including those relating to zoning, environmental protection and land use. The permits and approvals are often difficult, time consuming and costly to obtain and could contain conditions that limit our operations.

We also have significant financial obligations relating to final capping, closure, post-closure and environmental remediation at our existing landfills. We establish accruals for these estimated costs, but we could underestimate such accruals. Environmental regulatory changes could accelerate or increase capping, closure, post-closure and remediation costs, requiring our expenditures to materially exceed our current accruals.

Various states have enacted, or are considering enacting, laws that restrict the disposal within the state of solid waste generated outside the state. From time to time, the United States Congress has considered legislation authorizing states to adopt regulations, restrictions, or taxes on the importation of out-of-state or out-of-jurisdiction waste. Additionally, several state and local governments have enacted “flow control” regulations, which attempt to require that all waste generated within the state or local jurisdiction be deposited at specific sites. The United States Congress’ adoption of legislation allowing restrictions on interstate transportation of out-of-state or out-of-jurisdiction waste certain types of flow control, or courts’ interpretations of interstate waste and flow control legislation, could adversely affect our solid and hazardous waste management services.

Additionally, regulations establishing extended producer responsibility, or EPR, are being considered or implemented in many places around the world, including in Canada and the U.S. EPR regulations are designed to place either partial or total responsibility on producers to fund the post-use life cycle of the products they create. Along with the funding responsibility, producers may be required to take over management of local recycling programs by taking back their products from end users or managing the collection operations and recycling processing infrastructure. There is no federal law establishing EPR in the U.S. or Canada; however, state, provincial and local governments could, and in some cases have, taken steps to implement EPR regulations. If wide-ranging EPR regulations were adopted, they could have a fundamental impact on the waste streams we manage and how we operate our business, including contract terms and pricing. A significant reduction in the waste, recycling and other streams we manage could have a material adverse effect on our financial condition, results of operations and cash flows.

Enforcement or implementation of foreign regulations can affect our ability to export products. In 2013, the Chinese government began to strictly enforce regulations that establish limits on moisture and non-conforming materials that may be contained in imported recycled paper and plastics. The higher quality expectations resulting from initiatives such as “Operation Green Fence” can drive up operating costs in the recycling industry, particularly for single stream MRFs. Single stream MRFs process a wide range of materials and tend to receive a higher percentage of the material being scrutinized by the Chinese government, which resulted in increased processing and residual disposal costs. If Operation Green Fence or other similar regulations increase our operating costs in the future, and we are not able to recapture those costs from our customers, such regulations could have a material adverse effect on our results of operations.

***Our revenues, earnings and cash flows will fluctuate based on changes in commodity prices.***

Our recycling operations process for sale certain recyclable materials, including fibers, aluminum and glass, all of which are subject to significant market price fluctuations. The majority of the recyclables that we process for sale are paper fibers, including old corrugated cardboard and old newsprint. The fluctuations in the market prices or demand for these commodities, particularly demand from Chinese paper mills, can affect our operating income and cash flows negatively, as we have experienced in 2012 and 2013, or positively, as we experienced in 2011. As we have increased the size of our recycling operations, we have also increased our exposure to commodity price fluctuations. The decline in market prices in 2013 and 2012 for commodities resulted in year-over-year decreases in revenue of \$79 million and \$428 million, respectively. In 2011, increases in the prices of recycling commodities resulted in a year-over-year increase in revenue of \$216 million. Overall commodity prices decreased year-over-year 5% and 25% in 2013 and 2012, respectively, and prices increased year-over-year 18% in 2011. These prices may fluctuate substantially and without notice in the future. Additionally, our recycling operations offer rebates to suppliers. Therefore, even if we experience higher revenues based on increased market prices for commodities, the rebates we pay will also increase. In other circumstances, the rebates may be subject to a floor, such that as market prices decrease, any expected profit margins on materials subject to the rebate floor are reduced or eliminated.

There are also significant price fluctuations in the price of methane gas, electricity and other energy-related products that are marketed and sold by our landfill gas recovery, waste-to-energy and independent power production plant operations that can significantly impact our revenue from yield provided by such businesses. In most of the markets in which we operate, electricity prices correlate with natural gas prices. During the years ended December 31, 2013, 2012 and 2011, 56%, 56% and 54%, respectively, of the electricity revenue at our waste-to-energy facilities was subject to current market rates. Our waste-to-energy facilities’ exposure to market price volatility will continue to increase as additional long-term contracts expire. We may not be able to enter into renewal contracts on comparable or favorable terms, or at all. If we are unable to successfully negotiate long-term contracts, or if market prices are at lower levels for sustained periods, our revenues, earnings and cash flows could be adversely affected.

***Increasing customer preference for alternatives to landfill disposal and waste-to-energy facilities could reduce our ability to operate at full capacity and cause our revenues and operating results to decline.***

Our customers are increasingly diverting waste to alternatives to landfill and waste-to-energy disposal, such as recycling and composting, while also working to reduce the amount of waste they generate. In addition, several state and local governments mandate recycling and waste reduction at the source and prohibit the disposal of certain types of waste, such as yard and food waste, at landfills or waste-to-energy facilities. Where such organic waste is not banned from the landfill or waste-to-energy facility, some large customers such as grocery stores and restaurants are choosing to divert their organic waste from landfills. Zero-waste goals (sending no waste to the landfill) have been set by many of North America’s largest companies. Although such mandates and initiatives help to protect our environment, these developments reduce the volume of waste going to landfills and waste-to-energy facilities in certain areas, which may affect our ability to operate our landfills and waste-to-energy facilities at full capacity, as well as affecting the prices that we can charge for landfill disposal and waste-to-energy services. Our landfills and our waste-to-energy facilities currently provide and have historically provided our highest income from operations margins. If we are not successful in expanding our service offerings

and growing lines of businesses to service waste streams that do not go to landfills or waste-to-energy facilities and to provide services for customers that wish to reduce waste entirely, then our revenues and operating results will decline. Additionally, despite the development of new service offerings and lines of business, it is reasonably possible that our revenues and our income from operations margins could be negatively affected due to disposal alternatives.

***Developments in technology could trigger a fundamental change in the waste management industry, as waste streams are increasingly viewed as a resource, which may adversely impact volumes at our landfills and waste-to-energy facilities and our profitability.***

Our Company and others have recognized the value of the traditional waste stream as a potential resource. Research and development activities are on-going to provide disposal alternatives that maximize the value of waste, including using waste as a source for renewable energy and other valuable by-products. We and many other companies are investing in these technologies. It is possible that such investments and technological advancements may reduce the cost of waste disposal or power production to a level below our costs and may reduce the demand for landfill space and waste-to-energy facilities. As a result, our revenues and margins could be adversely affected due to advancements in disposal alternatives.

***If we are not able to develop new service offerings and protect intellectual property, or if a competitor develops or obtains exclusive rights to a breakthrough technology, our financial results may suffer.***

Our existing and proposed service offerings to customers may require that we invest in, develop or license, and protect, new technologies. Research and development of new technologies and investment in emerging technologies often requires significant spending that may divert capital investment away from our traditional business operations. We may experience difficulties or delays in the research, development, production and/or marketing of new products and services or emerging technologies in which we have invested, which may negatively impact our operating results and prevent us from recouping or realizing a return on the investments required to bring new products and services to market. Further, protecting our intellectual property rights and combating unlicensed copying and use of intellectual property is difficult, and any inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources. Our Company and others are increasingly focusing on new technologies that provide alternatives to traditional disposal and maximize the resource value of waste. If a competitor develops or obtains exclusive rights to a “breakthrough technology” that provides a revolutionary change in traditional waste management, or if we have inferior intellectual property to our competitors, our financial results may suffer.

***Our business depends on our reputation and the value of our brand.***

We believe we have developed a reputation for high-quality service, reliability and social and environmental responsibility, and we believe our brand symbolizes these attributes. The Waste Management brand name, trademarks and logos and our reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Adverse publicity, whether or not justified, relating to activities by our operations, employees or agents could tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity could reduce demand for our services. This reduction in demand, together with the dedication of time and expense necessary to defend our reputation, could have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand.

***Our operations are subject to environmental, health and safety laws and regulations, as well as contractual obligations that may result in significant liabilities.***

There is risk of incurring significant environmental liabilities in the use, treatment, storage, transfer and disposal of waste materials. Under applicable environmental laws and regulations, we could be liable if our operations cause environmental damage to our properties or to the property of other landowners, particularly as a result of the contamination of air, drinking water or soil. Under current law, we could also be held liable for damage caused by conditions that existed before we acquired the assets or operations involved. This risk is of particular concern as we execute our growth strategy, partially through acquisitions, because we may be



unsuccessful in identifying and assessing potential liabilities during our due diligence investigations. Further, the counterparties in such transactions may be unable to perform their indemnification obligations owed to us. Additionally, we could be liable if we arrange for the transportation, disposal or treatment of hazardous substances that cause environmental contamination, or if a predecessor owner made such arrangements and, under applicable law, we are treated as a successor to the prior owner. Any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows.

In the ordinary course of our business, we have in the past, we are currently, and we may in the future, become involved in legal and administrative proceedings relating to land use and environmental laws and regulations. These include proceedings in which:

- agencies of federal, state, local or foreign governments seek to impose liability on us under applicable statutes, sometimes involving civil or criminal penalties for violations, or to revoke or deny renewal of a permit we need; and
- local communities, citizen groups, landowners or governmental agencies oppose the issuance of a permit or approval we need, allege violations of the permits under which we operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage.

We generally seek to work with the authorities or other persons involved in these proceedings to resolve any issues raised. If we are not successful, the adverse outcome of one or more of these proceedings could result in, among other things, material increases in our costs or liabilities as well as material charges for asset impairments.

Further, we often enter into agreements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation. Costs to remediate or restore the condition of closed sites may be significant.

***General economic conditions can directly and adversely affect our revenues and our income from operations margins.***

Our business is directly affected by changes in national and general economic factors that are outside of our control, including consumer confidence, interest rates and access to capital markets. A weak economy generally results in decreased consumer spending and decreases in volumes of waste generated, which decreases our revenues. A weak market for consumer goods can significantly decrease demand by paper mills for recycled corrugated cardboard used in packaging; such decrease in demand can negatively impact commodity prices and our operating income and cash flows. In addition, we have a relatively high fixed-cost structure, which is difficult to quickly adjust to match shifting volume levels. Consumer uncertainty and the loss of consumer confidence may limit the number or amount of services requested by customers. Economic conditions may also limit our ability to implement our pricing strategy. For example, many of our contracts have price adjustment provisions that are tied to an index such as the Consumer Price Index, and our costs may increase in excess of the increase, if any, in the Consumer Price Index.

***Some of our customers, including governmental entities, have suffered financial difficulties affecting their credit risk, which could negatively impact our operating results.***

We provide service to a number of governmental entities and municipalities, some of which have suffered significant financial difficulties due to the downturn in the economy, reduced tax revenue and/or high cost structures. Some of these entities could be unable to pay amounts owed to us or renew contracts with us at previous or increased rates.

Many non-governmental customers have also suffered serious financial difficulties, including bankruptcy in some cases. Purchasers of our recyclable commodities can be particularly vulnerable to financial difficulties in times of commodity price volatility. The inability of our customers to pay us in a timely manner or to pay increased rates, particularly large national accounts, could negatively affect our operating results.

In addition, the financial difficulties of municipalities could result in a decline in investors' demand for municipal bonds and a correlating increase in interest rates. As of December 31, 2013, we had \$577 million of variable-rate tax-exempt bonds that are subject to repricing on either a daily or a weekly basis through a remarketing process and \$939 million of tax-exempt bonds with term interest rate periods that are subject to repricing within the next twelve months. If the weakness in the municipal debt market results in repricing of our tax-exempt bonds at significantly higher interest rates, we will incur increased interest expenses that may negatively affect our operating results and cash flows.

***We may be unable to obtain or maintain required permits or to expand existing permitted capacity of our landfills, which could decrease our revenue and increase our costs.***

Our ability to meet our financial and operating objectives depends in part on our ability to obtain and maintain the permits necessary to operate landfill sites. Permits to build, operate and expand solid waste management facilities, including landfills and transfer stations, have become more difficult and expensive to obtain and maintain. Permits often take years to obtain as a result of numerous hearings and compliance requirements with regard to zoning, environmental and other regulations. These permits are also often subject to resistance from citizen or other groups and other political pressures. Local communities and citizen groups, adjacent landowners or governmental agencies may oppose the issuance of a permit or approval we may need, allege violations of the permits under which we currently operate or laws or regulations to which we are subject, or seek to impose liability on us for environmental damage. Responding to these challenges has, at times, increased our costs and extended the time associated with establishing new facilities and expanding existing facilities. In addition, failure to receive regulatory and zoning approval may prohibit us from establishing new facilities or expanding existing facilities. Our failure to obtain the required permits to operate our landfills could have a material adverse impact on our consolidated financial condition, results of operations and cash flows.

***Significant shortages in diesel fuel supply or increases in diesel fuel prices will increase our operating expenses.***

The price and supply of diesel fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries ("OPEC") and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. Average diesel fuel prices decreased in 2013 but increased in both 2012 and 2011. We need diesel fuel to run a significant portion of our collection and transfer trucks and our equipment used in our landfill operations. Supply shortages could substantially increase our operating expenses. Additionally, as fuel prices increase, our direct operating expenses increase and many of our vendors raise their prices as a means to offset their own rising costs. We have in place a fuel surcharge program, designed to offset increased fuel expenses; however, we may not be able to pass through all of our increased costs and some customers' contracts prohibit any pass-through of the increased costs. Additionally, we are currently party to pending litigation that pertains to our fuel and environmental charges included on our invoices and generally alleges that such charges were not properly disclosed, were unfair, and were contrary to customer service contracts. See Note 11 of the Consolidated Financial Statements for more information. Regardless of any offsetting surcharge programs, increased operating costs due to higher diesel fuel prices will decrease our income from operations margins.

***We are expanding our compressed natural gas ("CNG") truck fleet, which makes us increasingly dependent on the availability of CNG and CNG fueling infrastructure and vulnerable to CNG prices.***

We currently operate the largest CNG fleet in the waste industry, and we plan to continue to transition a significant portion of our collection fleet from diesel fuel to CNG. However, CNG is not yet broadly available in North America; as a result, we have constructed and operate natural gas fueling stations, some of which also serve the public or pre-approved third parties. Until the public and third parties in North America broadly adopt CNG, which may not be on the timetable we anticipate, it will remain necessary for us to invest capital in CNG fueling infrastructure in order to power our CNG fleet. Concerns have been raised about the potential for emissions from fueling infrastructure that serve natural gas-fueled vehicles. New regulation of, or restrictions on, CNG fueling infrastructure or reductions in associated tax incentives could increase our operating costs.

Additionally, fluctuations in the price and supply of CNG could substantially increase our operating expenses, and a reduction in the existing cost differential between CNG and diesel fuel could materially reduce the benefits we anticipate from our investment in CNG vehicles. Further, our fuel surcharge program is currently indexed to diesel fuel prices, and price fluctuations for CNG may not effectively be recovered by this program.

***We are increasingly dependent on technology in our operations and if our technology fails, our business could be adversely affected.***

We may experience problems with the operation of our current information technology systems or the technology systems of third parties on which we rely, as well as the development and deployment of new information technology systems, that could adversely affect, or even temporarily disrupt, all or a portion of our operations until resolved. Inabilities and delays in implementing new systems can also affect our ability to realize projected or expected cost savings. Additionally, any systems failures could impede our ability to timely collect and report financial results in accordance with applicable laws and regulations.

***A cybersecurity incident could negatively impact our business and our relationships with customers.***

We use computers in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to connect with our employees and our customers. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information and intellectual property, including customers' personal information, private information about employees, and financial and strategic information about the Company and its business partners. We also rely on a Payment Card Industry compliant third party to protect our customers' credit card information. Further, as the Company pursues its strategy to grow through acquisitions and to pursue new initiatives that improve our operations and cost structure, the Company is also expanding and improving its information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with acquisitions and new initiatives, we may become increasingly vulnerable to such risks. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage.

***Our operating expenses could increase as a result of labor unions organizing or changes in regulations related to labor unions.***

Labor unions continually attempt to organize our employees, and these efforts will likely continue in the future. Certain groups of our employees are currently represented by unions, and we have negotiated collective bargaining agreements with these unions. Additional groups of employees may seek union representation in the future, and, if successful, the negotiation of collective bargaining agreements could divert management attention and result in increased operating expenses and lower net income. If we are unable to negotiate acceptable collective bargaining agreements, our operating expenses could increase significantly as a result of work stoppages, including strikes. Any of these matters could adversely affect our financial condition, results of operations and cash flows.

***We could face significant liabilities for withdrawal from multiemployer pension plans.***

We are a participating employer in a number of trustee-managed multiemployer, defined benefit pension plans for employees who are covered by collective bargaining agreements. The risks of participating in these multiemployer plans are different from single-employer plans in that (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees or former employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan

may be required to be assumed by the remaining participating employers and (iii) if we choose to stop participating in any of our multiemployer plans, we may be required to pay those plans a withdrawal amount based on the underfunded status of the plan.

In connection with our ongoing renegotiations of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. Further, business events, such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations, which result in the decline of Company contributions to a multiemployer pension plan, could trigger a partial or complete withdrawal. In the event of a withdrawal, we may incur expenses associated with our obligations for unfunded vested benefits at the time of the withdrawal. Various factors affect our liabilities for a plan's underfunded status, including the numbers of retirees and active workers in the plan, the ongoing solvency of participating employers, the investment returns obtained on plan assets, and the ratio of our historical participation in such plan to all employers' historical participation; depending on such factors, future withdrawals could have a material adverse effect on results of operations for a particular reporting period. We reflect any withdrawal liability as an operating expense in our statement of operations and as a liability on our balance sheet.

We have previously withdrawn several employee bargaining units from underfunded multiemployer pension plans, and we recognized related expenses of \$5 million in 2013 and \$10 million in 2012. We are still negotiating and litigating final resolutions of our withdrawal liability for certain withdrawals, which could be higher than the charges we have recognized.

***Our business is subject to operational and safety risks, including the risk of personal injury to employees and others.***

Providing environmental and waste management services, including constructing and operating landfills, involves risks such as truck accidents, equipment defects, malfunctions and failures, mass instability or waste slides, severe weather and natural disasters, which could potentially result in releases of hazardous materials and odors, injury or death of employees and others, or a need to shut down or reduce operation of our facilities while remedial actions are undertaken. Additionally, we have built and are operating CNG fueling stations to serve our growing fleet of CNG trucks, some of which also serve the public or third parties. Operation of fueling stations, landfill gas collection and control systems and waste to energy plants involves additional risks of fire and explosion. All of these risks expose us to potential liability for pollution and other environmental damages, personal injury, loss of life, business interruption, and property damage or destruction.

While we seek to minimize our exposure to such risks through comprehensive training and compliance programs, as well as vehicle and equipment maintenance programs, if we were to incur substantial liabilities in excess of any applicable insurance, our business, results of operations and financial condition could be adversely affected. Any such incidents could also tarnish our reputation and reduce the value of our brand.

***We have substantial financial assurance and insurance requirements, and increases in the costs of obtaining adequate financial assurance, or the inadequacy of our insurance coverages, could negatively impact our liquidity and increase our liabilities.***

The amount of insurance we are required to maintain for environmental liability is governed by statutory requirements. We believe that the cost for such insurance is high relative to the coverage it would provide and, therefore, our coverages are generally maintained at the minimum statutorily-required levels. We face the risk of incurring additional costs for environmental damage if our insurance coverage is ultimately inadequate to cover those damages. We also carry a broad range of other insurance coverages that are customary for a company our size. We use these programs to mitigate risk of loss, thereby enabling us to manage our self-insurance exposure associated with claims. The inability of our insurers to meet their commitments in a timely manner and the effect of significant claims or litigation against insurance companies may subject us to additional risks. To the extent our insurers are unable to meet their obligations, or our own obligations for claims are more than we estimated, there could be a material adverse effect to our financial results.

In addition, to fulfill our financial assurance obligations with respect to variable-rate tax-exempt debt, final capping, closure, post-closure and environmental remediation obligations, we generally obtain letters of credit or surety bonds, rely on insurance, including captive insurance, fund trust and escrow accounts or rely upon WM financial guarantees. We currently have in place all financial assurance instruments necessary for our operations. Our financial position, which can be negatively affected by asset impairments, our credit profile and general economic factors, may adversely affect the cost of our current financial assurance instruments, and changes in regulations may impose stricter requirements on the types of financial assurance that will be accepted. Additionally, in the event we are unable to obtain sufficient surety bonding, letters of credit or third-party insurance coverage at reasonable cost, or one or more states cease to view captive insurance as adequate coverage, we would need to rely on other forms of financial assurance. It is possible that we could be forced to deposit cash to collateralize our obligations. Other forms of financial assurance could be more expensive to obtain, and any requirements to use cash to support our obligations would negatively impact our liquidity and capital resources and could affect our ability to meet our obligations as they become due.

***We may record material charges against our earnings due to any number of events that could cause impairments to our assets.***

In accordance with GAAP, we capitalize certain expenditures and advances relating to disposal site development, expansion projects, acquisitions, software development costs and other projects. Events that could, in some circumstances, lead to an impairment include, but are not limited to, shutting down a facility or operation or abandoning a development project or the denial of an expansion permit. Additionally, declining waste volumes and development of, and customer preference for, alternatives to traditional waste disposal could warrant asset impairments. If we determine an asset or expansion project is impaired, we will charge against earnings any unamortized capitalized expenditures and advances relating to such asset or project reduced by any portion of the capitalized costs that we estimate will be recoverable, through sale or otherwise. We also carry a significant amount of goodwill on our Consolidated Balance Sheet, which is required to be assessed for impairment annually, and more frequently in the case of certain triggering events. We may be required to incur charges against earnings if such impairment tests indicate that the fair value of a reporting unit is below its carrying value. Any such charges could have a material adverse effect on our results of operations.

***Our capital requirements and our business strategy could increase our expenses, cause us to change our growth and development plans, or fail to maintain our desired credit profile.***

If economic conditions or other risks and uncertainties cause a significant reduction in our cash flows from operations, we may reduce or suspend capital expenditures, growth and acquisition activity, implementation of our business strategy, dividend declarations or share repurchases. We may choose to incur indebtedness to pay for these activities, although our access to capital markets is not assured and we may not be able to incur indebtedness at a cost that is consistent with current borrowing rates. We also may need to incur indebtedness to refinance scheduled debt maturities, and it is possible that the cost of financing could increase significantly, thereby increasing our expenses and decreasing our net income. Further, our ability to execute our financial strategy and our ability to incur indebtedness is somewhat dependent upon our ability to maintain investment grade ratings on our senior debt. The credit rating process is contingent upon our credit profile, as well as a number of other factors, many of which are beyond our control, including methodologies established and interpreted by third party rating agencies. If we were unable to maintain our investment grade credit ratings in the future, our interest expense would increase and our ability to obtain financing on favorable terms could be adversely affected.

Additionally, we have \$2.4 billion of debt as of December 31, 2013 that is exposed to changes in market interest rates within the next 12 months because of the combined impact of our tax-exempt bonds and borrowings outstanding under our \$2.25 billion revolving credit facility and Canadian credit facility and term loan. If interest rates increase, our interest expense would also increase, lowering our net income and decreasing our cash flow.



We may use our \$2.25 billion revolving credit facility and our C\$150 million Canadian revolving credit facility to meet our cash needs, to the extent available, until maturity in July 2018 and November 2017, respectively. As of December 31, 2013, we had \$420 million of outstanding borrowings and \$872 million of letters of credit issued and supported by the \$2.25 billion revolving credit facility, leaving an unused and available credit capacity of \$958 million, and we had \$9 million of borrowings under the Canadian revolving credit facility. In the event of a default under our credit facilities, we could be required to immediately repay all outstanding borrowings and make cash deposits as collateral for all obligations the facility supports, which we may not be able to do. Additionally, any such default could cause a default under many of our other credit agreements and debt instruments. Without waivers from lenders party to those agreements, any such default would have a material adverse effect on our ability to continue to operate.

***The adoption of climate change legislation or regulations restricting emissions of “greenhouse gases” could increase our costs to operate.***

Our landfill operations emit methane, identified as a GHG. There are a number of legislative and regulatory efforts at the state, regional and federal levels to curtail the emission of GHGs to ameliorate the effect of climate change. Should comprehensive federal climate change legislation be enacted, we expect it could impose costs on our operations that might not be offset by the revenue increases associated with our lower-carbon service options, the materiality of which we cannot predict. In 2010, the EPA published a Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule, which expanded the EPA’s federal air permitting authority to include the six GHGs. The rule sets new thresholds for GHG emissions that define when Clean Air Act permits are required. The current requirements of these rules have not significantly affected our operations or cash flows, due to the tailored thresholds and exclusions of certain emissions from regulation.

On October 1, 2013, the Supreme Court granted petitions for certiorari to consider whether the EPA’s regulation of GHG emissions from new motor vehicles triggered permitting requirements under the Clean Air Act. If the Supreme Court decides that permitting requirements were triggered for GHGs, and if certain changes to these regulations are enacted, such as the lowering of thresholds or inclusion of biogenic emissions, such amendments could have a material adverse effect on our results of operations or cash flows that would not be mitigated by increased revenues associated with the services we offer customers to reduce their GHG footprints.

***Changes in oil and gas prices and drilling activity, and changes in regulations applicable to oil and gas drilling and production, could adversely affect our Energy Service business.***

We provide specialized disposal services for oil and gas exploration and production operations. Demand for these services may be adversely affected if drilling activity slows due to industry conditions beyond our control, including changes in oil and gas prices. Additionally, changes in laws or government regulations regarding GHG emissions from oil and gas operations and/or hydraulic fracturing could increase our customers’ costs of doing business and reduce oil and gas exploration and production by customers. Recently, there has been increased attention from the public, some states and the EPA to the alleged potential for hydraulic fracturing to impact drinking water supplies. Increased regulation of oil and gas exploration and production and new rules regarding the treatment and disposal of wastes associated with exploration and production operations could increase our costs to provide oilfield services and reduce our margins and revenue from such services.

***The seasonal nature of our business, severe weather events and “one-time” special projects cause our results to fluctuate, and prior performance is not necessarily indicative of our future results.***

Our operating revenues tend to be somewhat higher in summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. The operating results of our first quarter often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities.

Service disruptions caused by severe storms, extended periods of inclement weather or climate extremes resulting from climate change can significantly affect the operating results of the affected Areas. On the other hand, certain destructive weather conditions that tend to occur during the second half of the year, such as the hurricanes that most often impact our operations in the Southern and Eastern U.S., can actually increase our revenues in the areas affected. While weather-related and other “one-time” occurrences can boost revenues through additional work for a limited time span, as a result of significant start-up costs and other factors, such revenue sometimes generates earnings at comparatively lower margins.

For these and other reasons, operating results in any interim period are not necessarily indicative of operating results for an entire year, and operating results for any historical period are not necessarily indicative of operating results for a future period. Our stock price may be negatively impacted by interim variations in our results.

***We could be subject to significant fines and penalties, and our reputation could be adversely affected, if our businesses, or third parties with whom we have a relationship, were to fail to comply with United States or foreign laws or regulations.***

Some of our projects and new business may be conducted in countries where corruption has historically been prevalent. It is our policy to comply with all applicable anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act, and with applicable local laws of the foreign countries in which we operate, and we monitor our local partners’ compliance with such laws as well. Our reputation may be adversely affected if we were reported to be associated with corrupt practices or if we or our local partners failed to comply with such laws. Such damage to our reputation could adversely affect our ability to grow our business. Additionally, violations of such laws could subject us to significant fines and penalties.

***The construction of new international waste-to-energy facilities is subject to many business risks and uncertainties that could cause such projects to fail to achieve the financial results anticipated.***

Our Wheelabrator business has invested in growing its waste-to-energy business in China and Europe through partnerships and joint ventures established to develop, construct and/or operate new facilities. Development and construction of a waste-to-energy facility is a complex, capital intensive, long-term process subject to risks of delays, cost overruns, failure to receive governmental or regulatory approvals and financing difficulty. Additionally, technology incorporated in such facilities may not perform as anticipated. Any of these risks, among others, may cause such projects to fail to achieve the financial results anticipated, which could have a negative impact on our operating results.

Additionally, the financing, development, construction and operation of projects outside the United States can entail significant political and financial risks, which vary by country, including:

- changes in law or regulations;
- changes in disposal and electricity pricing;
- changes in foreign tax laws and regulations;

- changes in United States federal, state and local laws, including tax laws, related to foreign operations;
- compliance with United States federal, state and local foreign corrupt practices laws;
- changes in government policies or personnel;
- changes in general economic conditions affecting each country, including conditions in financial markets;
- changes in labor relations in operations outside the United States;
- political, economic or military instability and civil unrest; and
- credit quality of entities that purchase our power.

The legal and financial environment in foreign countries could also make it more difficult for us to enforce our rights under agreements. Any or all of the risks identified above with respect to our international projects could adversely affect our revenue and cash generation.

***Currently pending or future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements.***

We are involved in civil litigation in the ordinary course of our business and from time-to-time are involved in governmental proceedings relating to the conduct of our business. The timing of the final resolutions to these types of matters is often uncertain. Additionally, the possible outcomes or resolutions to these matters could include adverse judgments or settlements, either of which could require substantial payments, adversely affecting our liquidity.

***We may experience adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations.***

Our implementation of and compliance with changes in accounting rules, including new accounting rules and interpretations, could adversely affect our reported financial position or operating results or cause unanticipated fluctuations in our reported operating results in future periods.

**Item 1B. *Unresolved Staff Comments.***

None.

**Item 2. *Properties.***

Our principal executive offices are in Houston, Texas, where we lease approximately 440,000 square feet under leases expiring through 2020. We also have administrative offices in Arizona, Illinois, Texas, Connecticut, New Hampshire, the United Kingdom and India. We own or lease real property in most locations where we have operations or administrative functions. We have operations in all 50 states. We also have operations in the District of Columbia, Puerto Rico and throughout Canada.

Our principal property and equipment consists of land (primarily landfills and other disposal facilities, transfer stations and bases for collection operations), buildings, vehicles and equipment. We believe that our vehicles, equipment, and operating properties are adequately maintained and sufficient for our current operations. However, we expect to continue to make investments in additional equipment and property for expansion, for replacement of assets, and in connection with our strategic growth plans. For more information, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included within this report.



The following table summarizes our various operations at December 31 for the periods noted:

|                                               | <u>2013</u> | <u>2012</u> |
|-----------------------------------------------|-------------|-------------|
| Landfills:                                    |             |             |
| Owned .....                                   | 209         | 211         |
| Operated through lease agreements .....       | 22          | 24          |
| Operated through contractual agreements ..... | <u>36</u>   | <u>34</u>   |
|                                               | 267         | 269         |
| Transfer stations .....                       | 300         | 297         |
| Material recovery facilities .....            | 120         | 114         |
| Secondary processing facilities .....         | 5           | 12          |
| Waste-to-energy facilities .....              | 16          | 17          |
| Independent power production plants .....     | 4           | 5           |

The following table provides certain information regarding the 231 landfills owned or operated through lease agreements and a count of landfills operated through contractual agreements, transfer stations and material recovery facilities as of December 31, 2013:

|                    | <b>Landfills Owned or Operated<br/>Through Lease Agreements</b> |                             |                                 | <b>Landfills<br/>Operating<br/>Through<br/>Contractual<br/>Agreements</b> | <b>Transfer<br/>Stations</b> | <b>Material<br/>Recovery<br/>Facilities</b> |
|--------------------|-----------------------------------------------------------------|-----------------------------|---------------------------------|---------------------------------------------------------------------------|------------------------------|---------------------------------------------|
|                    | <u>Landfills</u>                                                | <u>Total<br/>Acreage(a)</u> | <u>Permitted<br/>Acreage(b)</u> | <u>Expansion<br/>Acreage(c)</u>                                           |                              |                                             |
| Solid Waste .....  | 227                                                             | 145,598                     | 37,238                          | 1,314                                                                     | 36                           | 297                                         |
| Wheelabrator ..... | <u>4</u>                                                        | <u>781</u>                  | <u>341</u>                      | <u>—</u>                                                                  | <u>—</u>                     | <u>3</u>                                    |
|                    | <u>231</u>                                                      | <u>146,379</u>              | <u>37,579</u>                   | <u>1,314</u>                                                              | <u>36</u>                    | <u>300</u>                                  |

- (a) “Total acreage” includes permitted acreage, expansion acreage, other acreage available for future disposal that has not been permitted, buffer land and other land owned or leased by our landfill operations.
- (b) “Permitted acreage” consists of all acreage at the landfill encompassed by an active permit to dispose of waste.
- (c) “Expansion acreage” consists of unpermitted acreage where the related expansion efforts meet our criteria to be included as expansion airspace. A discussion of the related criteria is included within Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — *Critical Accounting Estimates and Assumptions* included herein.

### **Item 3. Legal Proceedings.**

Information regarding our legal proceedings can be found under the *Environmental Matters* and *Litigation* sections of Note 11 in the Consolidated Financial Statements included in this report.

### **Item 4. Mine Safety Disclosures.**

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

## PART II

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

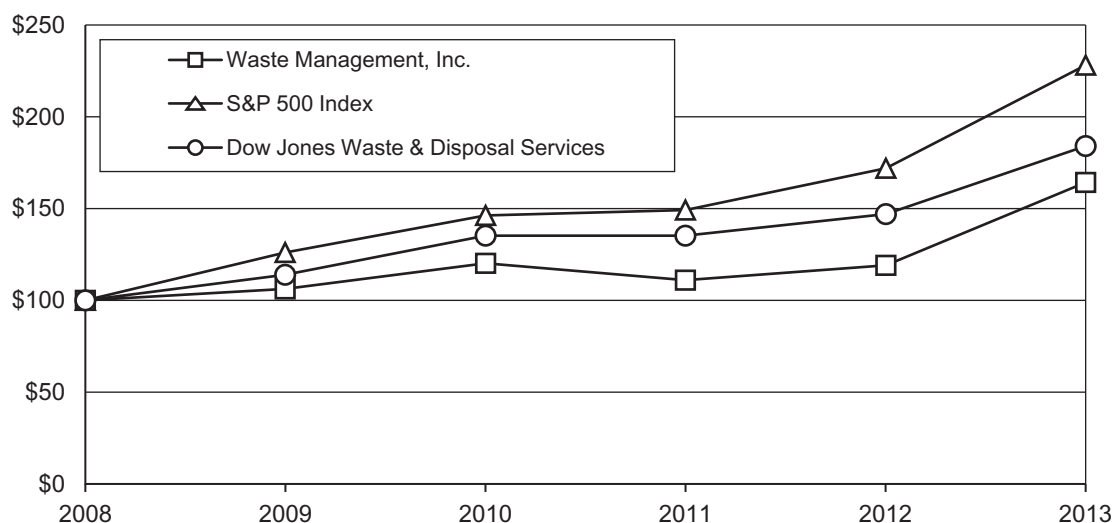
Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "WM." The following table sets forth the range of the high and low per-share sales prices for our common stock as reported on the NYSE:

|                                                | <u>High</u> | <u>Low</u> |
|------------------------------------------------|-------------|------------|
| 2012                                           |             |            |
| First Quarter .....                            | \$35.75     | \$32.11    |
| Second Quarter .....                           | 36.35       | 31.93      |
| Third Quarter .....                            | 35.70       | 31.08      |
| Fourth Quarter .....                           | 34.45       | 30.83      |
| 2013                                           |             |            |
| First Quarter .....                            | \$39.26     | \$33.70    |
| Second Quarter .....                           | 42.99       | 37.97      |
| Third Quarter .....                            | 43.58       | 39.60      |
| Fourth Quarter .....                           | 46.37       | 40.29      |
| 2014                                           |             |            |
| First Quarter (through February 7, 2014) ..... | \$44.80     | \$40.90    |

On February 7, 2014, the closing sales price as reported on the NYSE was \$42.84 per share. The number of holders of record of our common stock on February 7, 2014 was 12,527.

The graph below shows the relative investment performance of Waste Management, Inc. common stock, the Dow Jones Waste & Disposal Services Index and the S&P 500 Index for the last five years, assuming reinvestment of dividends at date of payment into the common stock. The graph is presented pursuant to SEC rules and is not meant to be an indication of our future performance.

**Comparison of Cumulative Five Year Total Return**



|                                           | <u>12/31/08</u> | <u>12/31/09</u> | <u>12/31/10</u> | <u>12/31/11</u> | <u>12/31/12</u> | <u>12/31/13</u> |
|-------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Waste Management, Inc.                    | \$100           | \$106           | \$120           | \$111           | \$119           | \$164           |
| S&P 500 Index                             | \$100           | \$126           | \$146           | \$149           | \$172           | \$228           |
| Dow Jones Waste & Disposal Services Index | \$100           | \$114           | \$135           | \$135           | \$147           | \$184           |

Our quarterly dividends have been declared and approved by our Board of Directors and paid in accordance with our financial plans. Cash dividends declared and paid were \$683 million in 2013, or \$1.46 per common share, \$658 million in 2012, or \$1.42 per common share, and \$637 million in 2011, or \$1.36 per common share.

In February 2014, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.365 to \$0.375 per share for dividends declared in 2014. However, all future dividend declarations are at the discretion of the Board of Directors and depend on various factors, including our net earnings, financial condition, cash required for future business plans and other factors the Board may deem relevant.

Our share repurchases have been made in accordance with financial plans approved by our Board of Directors. In December 2012, the Board of Directors authorized up to \$500 million in share repurchases, and we repurchased \$239 million of our common stock pursuant to that authorization in 2013. In February 2014, the Board of Directors authorized up to \$600 million in future share repurchases; this authorization both replaces and increases the amount that remained available for share repurchases under the prior authorization. Any future share repurchases will be made at the discretion of management, and will depend on factors similar to those considered by the Board in making dividend declarations.

The following table summarizes common stock repurchases made during the fourth quarter of 2013:

| <b>Issuer Purchases of Equity Securities</b> |                                                     |                                                |                                                                                                         |                                                                                                                     |
|----------------------------------------------|-----------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Period</b>                                | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share(a)</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs</b> | <b>Approximate Maximum<br/>Dollar Value of Shares that<br/>May Yet be Purchased Under<br/>the Plans or Programs</b> |
| October 1 — 31 . . . . .                     | —                                                   | \$ —                                           | —                                                                                                       | \$500 million                                                                                                       |
| November 1 — 30 . . . . .                    | 2,071,715                                           | \$44.86                                        | 2,071,715                                                                                               | \$407 million                                                                                                       |
| December 1 — 31 . . . . .                    | <u>3,296,214</u>                                    | \$44.35                                        | <u>3,296,214</u>                                                                                        | \$261 million                                                                                                       |
| Total . . . . .                              | <u>5,367,929</u>                                    | \$44.55                                        | <u>5,367,929</u>                                                                                        |                                                                                                                     |

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

**Item 6. Selected Financial Data.**

The information below was derived from the audited Consolidated Financial Statements included in this report and in previous annual reports we filed with the SEC. This information should be read together with those Consolidated Financial Statements and the notes thereto. The adoption of new accounting pronouncements, changes in certain accounting policies and certain reclassifications impact the comparability of the financial information presented below. These historical results are not necessarily indicative of the results to be expected in the future.

|                                                                                                            | Years Ended December 31,                |                |                |                |                |
|------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                            | 2013(a)                                 | 2012(a)        | 2011(a)        | 2010           | 2009           |
|                                                                                                            | (In millions, except per share amounts) |                |                |                |                |
| <b>Statement of Operations Data:</b>                                                                       |                                         |                |                |                |                |
| Operating revenues . . . . .                                                                               | \$13,983                                | \$13,649       | \$13,378       | \$12,515       | \$11,791       |
| Costs and expenses:                                                                                        |                                         |                |                |                |                |
| Operating . . . . .                                                                                        | 9,112                                   | 8,879          | 8,541          | 7,824          | 7,241          |
| Selling, general and administrative . . . . .                                                              | 1,468                                   | 1,472          | 1,551          | 1,461          | 1,364          |
| Depreciation and amortization . . . . .                                                                    | 1,333                                   | 1,297          | 1,229          | 1,194          | 1,166          |
| Restructuring . . . . .                                                                                    | 18                                      | 67             | 19             | (2)            | 50             |
| Goodwill impairments . . . . .                                                                             | 509                                     | 4              | 1              | —              | —              |
| (Income) expense from divestitures, asset impairments<br>(other than goodwill) and unusual items . . . . . | 464                                     | 79             | 9              | (78)           | 83             |
|                                                                                                            | <u>12,904</u>                           | <u>11,798</u>  | <u>11,350</u>  | <u>10,399</u>  | <u>9,904</u>   |
| Income from operations . . . . .                                                                           | 1,079                                   | 1,851          | 2,028          | 2,116          | 1,887          |
| Other expense, net . . . . .                                                                               | (585)                                   | (548)          | (508)          | (485)          | (414)          |
| Income before income taxes . . . . .                                                                       | 494                                     | 1,303          | 1,520          | 1,631          | 1,473          |
| Provision for income taxes . . . . .                                                                       | 364                                     | 443            | 511            | 629            | 413            |
| Consolidated net income . . . . .                                                                          | 130                                     | 860            | 1,009          | 1,002          | 1,060          |
| Less: Net income attributable to noncontrolling interests . . .                                            | 32                                      | 43             | 48             | 49             | 66             |
| Net income attributable to Waste Management, Inc. . . . .                                                  | <u>\$ 98</u>                            | <u>\$ 817</u>  | <u>\$ 961</u>  | <u>\$ 953</u>  | <u>\$ 994</u>  |
| Basic earnings per common share . . . . .                                                                  | <u>\$ 0.21</u>                          | <u>\$ 1.76</u> | <u>\$ 2.05</u> | <u>\$ 1.98</u> | <u>\$ 2.02</u> |
| Diluted earnings per common share . . . . .                                                                | <u>\$ 0.21</u>                          | <u>\$ 1.76</u> | <u>\$ 2.04</u> | <u>\$ 1.98</u> | <u>\$ 2.01</u> |
| Cash dividends declared per common share . . . . .                                                         | <u>\$ 1.46</u>                          | <u>\$ 1.42</u> | <u>\$ 1.36</u> | <u>\$ 1.26</u> | <u>\$ 1.16</u> |
| <b>Balance Sheet Data (at end of period):</b>                                                              |                                         |                |                |                |                |
| Working capital (deficit) . . . . .                                                                        | \$ (515)                                | \$ (613)       | \$ (689)       | \$ (3)         | \$ 109         |
| Goodwill and other intangible assets, net . . . . .                                                        | 6,599                                   | 6,688          | 6,672          | 6,021          | 5,870          |
| Total assets . . . . .                                                                                     | 22,603                                  | 23,097         | 22,569         | 21,476         | 21,154         |
| Debt, including current portion . . . . .                                                                  | 10,226                                  | 9,916          | 9,756          | 8,907          | 8,873          |
| Total Waste Management, Inc. stockholders' equity . . . . .                                                | 5,707                                   | 6,354          | 6,070          | 6,260          | 6,285          |
| Total equity . . . . .                                                                                     | 6,002                                   | 6,675          | 6,390          | 6,591          | 6,591          |

- (a) For more information regarding these financial data, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report. For disclosures associated with the impact of the adoption of new accounting pronouncements and changes in our accounting policies on the comparability of this information, see Note 2 to the Consolidated Financial Statements.

## **Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

This section includes a discussion of our results of operations for the three years ended December 31, 2013. This discussion may contain forward-looking statements that anticipate results based on management's plans that are subject to uncertainty. We discuss in more detail various factors that could cause actual results to differ from expectations in Item 1A, *Risk Factors*. The following discussion should be read in light of that disclosure and together with the Consolidated Financial Statements and the notes to the Consolidated Financial Statements.

### ***Overview***

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

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

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

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

Notable items of our 2013 financial results include:

- Revenues of \$14.0 billion in 2013 compared with \$13.6 billion in 2012, an increase of \$334 million, or 2.4%. This increase in revenues is primarily attributable to (i) positive revenue growth from yield on our collection and disposal operations of \$235 million, or 2.1%, and (ii) revenue from acquisitions, driven in large part by our acquisitions of Greenstar and RCI, which increased revenues by \$138 million and \$80 million, respectively. These increases were partially offset by lower volumes, which decreased our revenues by \$133 million;
- Operating expenses of \$9.1 billion in 2013, or 65.2% of revenues, compared with \$8.9 billion, or 65.1% of revenues, in 2012. This increase of \$233 million is largely due to (i) our acquisition of Greenstar, which increased operating expenses by \$131 million, and was primarily related to cost of goods sold and, to a lesser extent, labor and related benefits and other categories; (ii) higher labor and related benefits due to merit increases and higher incentive compensation costs attributed to higher anticipated payouts and (iii) higher costs from the acquired RCI operations, primarily subcontractor costs and, to a lesser extent, cost of goods sold. The increases attributable to Greenstar and RCI were incurred in connection with the acquisition revenues discussed above;

- Selling, general and administrative expenses of \$1,468 million in 2013, or 10.5% of revenues, compared with \$1,472 million, or 10.8% of revenues, in 2012. This decrease of \$4 million is primarily due to our restructuring efforts and cost control initiatives and the collection of reserved receivables in Puerto Rico offset, in part, by higher compensation costs due to an increase in the accrual for incentive plan payouts due to improved performance;
- Income from operations of \$1.1 billion, or 7.7% of revenues, in 2013 compared with \$1.9 billion, or 13.6% of revenues, in 2012, the decrease of which is primarily attributable to the impairment charges discussed below;
- Net income attributable to Waste Management, Inc. of \$98 million, or \$0.21 per diluted share for 2013, as compared with \$817 million, or \$1.76 per diluted share for 2012, the decrease of which is primarily attributable to the impairment charges discussed below;
- Net cash provided by operating activities of \$2,455 million in 2013, as compared with \$2,295 million in 2012, an increase \$160 million; and
- In 2013, we returned \$683 million and \$239 million to our shareholders through dividends and share repurchases, respectively, compared with \$658 million through dividends in 2012.

The following explanation of certain items that impacted the comparability of our 2013 results with 2012 has been provided to support investors' understanding of our performance. Our 2013 results were affected by the following:

- The recognition of net pre-tax charges aggregating \$1.0 billion, primarily related to (i) a \$483 million charge to impair goodwill associated with our Wheelabrator business; (ii) \$262 million of charges to impair certain landfills, primarily in our Eastern Canada Area; (iii) \$144 million of charges to write down the carrying value of three waste-to-energy facilities and (iv) \$71 million of impairment charges relating to investments in waste diversion technology companies. We do not expect these impairment charges to materially impact our future results of operations or cash flows. These items had a negative impact of \$1.91 on our diluted earnings per share; and
- The recognition of pre-tax charges aggregating \$23 million primarily related to our acquisitions of Greenstar and RCI as well as our July 2012 restructuring and other charges. These items had a negative impact of \$0.03 on our diluted earnings per share.

The following explanation of certain notable items that impacted the comparability of our 2012 results with 2011 has been provided to support investors' understanding of our performance. Our 2012 results were affected by the following:

- The recognition of pre-tax impairment charges aggregating \$109 million attributable primarily to facilities in our medical waste services business and investments in waste diversion technologies. These items had a negative impact of \$0.17 on our diluted earnings per share;
- The recognition of pre-tax restructuring costs aggregating \$82 million primarily related to our July 2012 restructuring as well as integration costs associated with our acquisition of Oakleaf. These items had a negative impact of \$0.11 on our diluted earnings per share;
- The recognition of a pre-tax charge of \$10 million related to the withdrawal from an underfunded multiemployer pension plan and a pre-tax charge of \$6 million resulting from a labor union dispute. These items had a negative impact of \$0.02 on our diluted earnings per share; and
- The recognition of pre-tax charges aggregating \$10 million related to an accrual for legal reserves and the impact of a decrease in the risk-free discount rate used to measure our environmental remediation liabilities. These items had a negative impact of \$0.01 on our diluted earnings per share.

Our 2011 results were affected by the following:

- The recognition of a pre-tax charge of \$24 million as a result of a litigation loss, which had a negative impact of \$0.03 on our diluted earnings per share;

- The recognition of pre-tax restructuring charges, excluding charges recognized in the operating results of Oakleaf, of \$17 million related to our cost savings programs. These charges were primarily related to employee severance and benefit costs and had a negative impact of \$0.02 on our diluted earnings per share;
- The reduction in pre-tax earnings of approximately \$11 million related to the Oakleaf acquisition, which includes the operating results of Oakleaf and related interest expense and integration costs. These items had a negative impact of \$0.01 on our diluted earnings per share;
- The recognition of a favorable pre-tax benefit of \$9 million from a revision to an environmental remediation liability at a closed landfill, which had a positive impact of \$0.01 on our diluted earnings per share;
- The recognition of non-cash, pre-tax asset impairment charges of \$9 million primarily related to two of our medical waste services facilities. The impairment charges had a negative impact of \$0.01 on our diluted earnings per share; and
- The recognition of a tax benefit of \$19 million due to favorable tax audit settlements and favorable adjustments relating to the finalization of our 2010 tax returns. These items had a positive impact of \$0.04 on our diluted earnings per share.

We experienced notably stronger free cash flow in 2013 when compared to 2012 due to improvements in cash flow from operations, primarily as a result of our pricing discipline. In 2013, we delivered on our prior expectation related to pricing, with internal revenue growth from yield at its highest level for the year in the fourth quarter and greater than 2.0% for the full year for the first time since 2010. Our cash flow also benefitted from our increased focus on capital spending management, and we continued to see the anticipated benefits from our cost savings programs, including lower selling, general and administrative costs when compared to 2012. Further, we increased the amount we returned to stockholders in 2013 compared to 2012 by increasing our dividend and repurchasing shares. Our fourth quarter and full year results for 2013 have laid a foundation that we expect will benefit us in 2014, allowing us to focus on generating solid earnings and cash flow driven by increased yield and cost controls. We also expect to continue to use our free cash flow to pay our dividends, repurchase shares, reduce debt and make appropriate acquisitions and investments in our traditional solid waste business.

### ***Free Cash Flow***

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

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

|                                                                                                         | Years Ended December 31, |               |                 |
|---------------------------------------------------------------------------------------------------------|--------------------------|---------------|-----------------|
|                                                                                                         | 2013                     | 2012          | 2011            |
| Net cash provided by operating activities . . . . .                                                     | \$ 2,455                 | \$ 2,295      | \$ 2,469        |
| Capital expenditures . . . . .                                                                          | (1,271)                  | (1,510)       | (1,324)         |
| Proceeds from divestitures of businesses (net of cash divested) and other sales of assets (a) . . . . . | 138                      | 44            | 53              |
| Free cash flow . . . . .                                                                                | <u>\$ 1,322</u>          | <u>\$ 829</u> | <u>\$ 1,198</u> |



- 
- (a) Proceeds from divestitures of businesses for the year ended December 31, 2011 included the receipt of a payment of \$17 million related to a note receivable from a prior year divestiture. This receipt is included as a component of “Other” within “Cash flows from investing activities” in our Consolidated Statement of Cash Flows.

When comparing our cash flows from operating activities for the year ended December 31, 2013 to the comparable period in 2012, the increase of \$160 million was primarily related to the impact of higher cash earnings, favorable impacts of working capital changes and the payment of \$59 million to settle the liabilities associated with the termination of our forward starting swaps in September 2012. The increase was partially offset by an increase in tax payments of \$145 million and the favorable cash receipt of \$72 million resulting from the termination of interest rate swaps in April 2012.

When comparing our cash flows from operating activities for the year ended December 31, 2012 to the comparable period in 2011, the decrease of \$174 million was primarily related to the impact of lower cash earnings, an increase in tax payments of \$63 million, the payment of \$59 million to settle the liabilities associated with the termination of our forward starting swaps in September 2012 and unfavorable impacts of working capital changes. The decrease was partially offset by a favorable cash receipt of \$72 million resulting from the termination of interest rate swaps in April 2012.

The decrease in capital expenditures when comparing the year ended December 31, 2013 to the comparable period can generally be attributed to increased focus on capital spending management. The increase in capital expenditures when comparing the year ended December 31, 2012 to the comparable period in 2011 is a result of our increased spending on compressed natural gas vehicles, related fueling infrastructure and growth initiatives, and the impact of timing differences associated with cash payments for the previous years’ fourth quarter capital spending. We generally use a significant portion of our free cash flow on capital spending in the fourth quarter of each year. A more significant portion of our fourth quarter 2011 spending was paid in cash in 2012 than in the preceding year.

### ***Acquisitions***

*Greenstar, LLC* — On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent based on changes in certain recyclable commodity indexes and had a preliminary estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers. Since the acquisition date, the Greenstar business has recognized revenues of \$139 million and net losses of \$17 million, which are included in our Consolidated Statement of Operations.

*RCI Environnement, Inc.* — On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec. Since the acquisition date, the RCI business has recognized revenues of \$87 million and net income of \$7 million, which are included in our Consolidated Statement of Operations.

*Oakleaf Global Holdings* — On July 28, 2011, we paid \$432 million, net of cash received of \$4 million and inclusive of certain adjustments, to acquire Oakleaf. Oakleaf provides outsourced waste and recycling services through a nationwide network of third-party haulers. We acquired Oakleaf to advance our growth and transformation strategies and increase our national accounts customer base while enhancing our ability to provide comprehensive environmental solutions. For the year ended December 31, 2011, subsequent to the acquisition date, Oakleaf recognized revenues of \$265 million and net income of less than \$1 million, which are included in our Consolidated Statement of Operations.



### ***Basis of Presentation of Consolidated Financial Information***

***Comprehensive Income*** — In February 2013, the Financial Accounting Standards Board (“FASB”) issued amended authoritative guidance associated with comprehensive income, which requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income by component. Additionally, companies are required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendment to authoritative guidance associated with comprehensive income was effective for the Company on January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements. We have presented the information required by this amendment in Note 14 to the Consolidated Financial Statements.

In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. The amendments to authoritative guidance associated with comprehensive income were effective for the Company on January 1, 2012 and have been applied retrospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

***Indefinite-Lived Intangible Assets Impairment Testing*** — In July 2012, the FASB amended authoritative guidance associated with indefinite-lived intangible assets impairment testing. The amended guidance provides companies the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. The amendments were effective for indefinite-lived intangible impairment tests performed for fiscal years beginning after September 15, 2012; however, early adoption was permitted. The Company’s early adoption of this guidance in 2012 did not have an impact on our consolidated financial statements. Additional information on impairment testing can be found in Note 3 to the Consolidated Financial Statements.

***Fair Value Measurement*** — In May 2011, the FASB amended authoritative guidance associated with fair value measurements. This amended guidance defines certain requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP. The amendments to authoritative guidance associated with fair value measurements were effective for the Company on January 1, 2012 and have been applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

***Goodwill Impairment Testing*** — In September 2011, the FASB amended authoritative guidance associated with goodwill impairment testing. The amended guidance provides companies the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments were effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption was permitted. The Company’s early adoption of this guidance in 2011 did not have an impact on our consolidated financial statements. Additional information on impairment testing can be found in Note 3 to the Consolidated Financial Statements.

***Multiple-Deliverable Revenue Arrangements*** — In October 2009, the FASB amended authoritative guidance associated with multiple-deliverable revenue arrangements. This amended guidance addresses the determination of when individual deliverables within an arrangement are required to be treated as separate units of accounting and modifies the manner in which consideration is allocated across the separately identifiable deliverables. The amendments to authoritative guidance associated with multiple-deliverable revenue

arrangements became effective for the Company on January 1, 2011. The new accounting standard has been applied prospectively to arrangements entered into or materially modified after the date of adoption. The adoption of this guidance has not had a material impact on our consolidated financial statements.

### ***Critical Accounting Estimates and Assumptions***

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

#### ***Landfills***

Accounting for landfills requires that significant estimates and assumptions be made regarding (i) the cost to construct and develop each landfill asset; (ii) the estimated fair value of final capping, closure and post-closure asset retirement obligations, which must consider both the expected cost and timing of these activities; (iii) the determination of each landfill's remaining permitted and expansion airspace and (iv) the airspace associated with each final capping event.

*Landfill Costs* — We estimate the total cost to develop each of our landfill sites to its remaining permitted and expansion capacity. This estimate includes such costs as landfill liner material and installation, excavation for airspace, landfill leachate collection systems, landfill gas collection systems, environmental monitoring equipment for groundwater and landfill gas, directly related engineering, capitalized interest, on-site road construction and other capital infrastructure costs. Additionally, landfill development includes all land purchases for the landfill footprint and required landfill buffer property. The projection of these landfill costs is dependent, in part, on future events. The remaining amortizable basis of each landfill includes costs to develop a site to its remaining permitted and expansion capacity and includes amounts previously expended and capitalized, net of accumulated airspace amortization, and projections of future purchase and development costs.

*Final Capping Costs* — We estimate the cost for each final capping event based on the area to be finally capped and the capping materials and activities required. The estimates also consider when these costs are anticipated to be paid and factor in inflation and discount rates. Our engineering personnel allocate landfill final capping costs to specific final capping events. The landfill capacity associated with each final capping event is then quantified and the final capping costs for each event are amortized over the related capacity associated with the event as waste is disposed of at the landfill. We review these costs annually, or more often if significant facts change. Changes in estimates, such as timing or cost of construction, for final capping events immediately impact the required liability and the corresponding asset. When the change in estimate relates to a fully consumed asset, the adjustment to the asset must be amortized immediately through expense. When the change in estimate relates to a final capping event that has not been fully consumed, the adjustment to the asset is recognized in income prospectively as a component of landfill airspace amortization.

*Closure and Post-Closure Costs* — We base our estimates for closure and post-closure costs on our interpretations of permit and regulatory requirements for closure and post-closure monitoring and maintenance. The estimates for landfill closure and post-closure costs also consider when the costs are anticipated to be paid and factor in inflation and discount rates. The possibility of changing legal and regulatory requirements and the forward-looking nature of these types of costs make any estimation or assumption less certain. Changes in estimates for closure and post-closure events immediately impact the required liability and the corresponding asset. When the change in estimate relates to a fully consumed asset, the adjustment to the asset must be

amortized immediately through expense. When the change in estimate relates to a landfill asset that has not been fully consumed, the adjustment to the asset is recognized in income prospectively as a component of landfill airspace amortization.

*Remaining Permitted Airspace* — Our engineers, in consultation with third-party engineering consultants and surveyors, are responsible for determining remaining permitted airspace at our landfills. The remaining permitted airspace is determined by an annual survey, which is used to compare the existing landfill topography to the expected final landfill topography.

*Expansion Airspace* — We also include currently unpermitted expansion airspace in our estimate of remaining permitted and expansion airspace in certain circumstances. First, to include airspace associated with an expansion effort, we must generally expect the initial expansion permit application to be submitted within one year, and the final expansion permit to be received within five years. Second, we must believe that obtaining the expansion permit is likely, considering the following criteria:

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

For unpermitted airspace to be initially included in our estimate of remaining permitted and expansion airspace, the expansion effort must meet all of the criteria listed above. These criteria are evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. Once the unpermitted airspace is included, our policy provides that airspace may continue to be included in remaining permitted and expansion airspace even if certain of these criteria are no longer met as long as we continue to believe we will ultimately obtain the permit, based on the facts and circumstances of a specific landfill. In these circumstances, continued inclusion must be approved through a landfill-specific review process that includes approval by our Chief Financial Officer and a review by the Audit Committee of our Board of Directors on a quarterly basis. Of the 25 landfill sites with expansions included at December 31, 2013, seven landfills required the Chief Financial Officer to approve the inclusion of the unpermitted airspace. Three of these landfills required approval by our Chief Financial Officer because of community or political opposition that could impede the expansion process. The remaining four landfills required approval due to local zoning restrictions or because the permit application processes do not meet the one- or five-year requirements.

When we include the expansion airspace in our calculations of remaining permitted and expansion airspace, we also include the projected costs for development, as well as the projected asset retirement costs related to final capping, closure and post-closure of the expansion in the amortization basis of the landfill.

Once the remaining permitted and expansion airspace is determined in cubic yards, an airspace utilization factor (“AUF”) is established to calculate the remaining permitted and expansion capacity in tons. The AUF is established using the measured density obtained from previous annual surveys and is then adjusted to account for future settlement. The amount of settlement that is forecasted will take into account several site-specific factors including current and projected mix of waste type, initial and projected waste density, estimated number of years of life remaining, depth of underlying waste, anticipated access to moisture through precipitation or recirculation of landfill leachate, and operating practices. In addition, the initial selection of the AUF is subject to a subsequent

multi-level review by our engineering group, and the AUF used is reviewed on a periodic basis and revised as necessary. Our historical experience generally indicates that the impact of settlement at a landfill is greater later in the life of the landfill when the waste placed at the landfill approaches its highest point under the permit requirements.

After determining the costs and remaining permitted and expansion capacity at each of our landfills, we determine the per ton rates that will be expensed as waste is received and deposited at the landfill by dividing the costs by the corresponding number of tons. We calculate per ton amortization rates for each landfill for assets associated with each final capping event, for assets related to closure and post-closure activities and for all other costs capitalized or to be capitalized in the future. These rates per ton are updated annually, or more often, as significant facts change.

It is possible that actual results, including the amount of costs incurred, the timing of final capping, closure and post-closure activities, our airspace utilization or the success of our expansion efforts could ultimately turn out to be significantly different from our estimates and assumptions. To the extent that such estimates, or related assumptions, prove to be significantly different than actual results, lower profitability may be experienced due to higher amortization rates or higher expenses; or higher profitability may result if the opposite occurs. Most significantly, if it is determined that expansion capacity should no longer be considered in calculating the recoverability of a landfill asset, we may be required to recognize an asset impairment or incur significantly higher amortization expense. If at any time management makes the decision to abandon the expansion effort, the capitalized costs related to the expansion effort are expensed immediately.

#### *Environmental Remediation Liabilities*

We are subject to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by operations, or for damage caused by conditions that existed before we acquired a site. These liabilities include potentially responsible party ("PRP") investigations, settlements, and certain legal and consultant fees, as well as costs directly associated with site investigation and clean up, such as materials, external contractor costs and incremental internal costs directly related to the remedy. We provide for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We routinely review and evaluate sites that require remediation and determine our estimated cost for the likely remedy based on a number of estimates and assumptions.

Where it is probable that a liability has been incurred, we estimate costs required to remediate sites based on site-specific facts and circumstances. We routinely review and evaluate sites that require remediation, considering whether we were an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years we were associated with the site. Next, we review the same type of information with respect to other named and unnamed PRPs. Estimates of the costs for the likely remedy are then either developed using our internal resources or by third-party environmental engineers or other service providers. Internally developed estimates are based on:

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

#### *Asset Impairments*

Our long-lived assets, including landfills and landfill expansions, are carried on our financial statements based on their cost less accumulated depreciation or amortization. We monitor the carrying value of our long-lived assets for potential impairment on a nonrecurring basis and test the recoverability of such assets using significant unobservable ("Level 3") inputs whenever events or changes in circumstances indicate that their

carrying amounts may not be recoverable. These events or changes in circumstances, including management decisions pertaining to such assets, are referred to as impairment indicators. If an impairment indicator occurs, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset or asset group to its carrying value. Fair value is generally determined by considering (i) internally developed discounted projected cash flow analysis of the asset or asset group; (ii) actual third-party valuations and/or (iii) information available regarding the current market for similar assets. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs and is included in the “Goodwill impairments” and “(Income) expense from divestitures, asset impairments (other than goodwill) and unusual items” line items in our Consolidated Statement of Operations. Estimating future cash flows requires significant judgment and projections may vary from the cash flows eventually realized, which could impact our ability to accurately assess whether an asset has been impaired.

There are additional considerations for impairments of landfills, goodwill and other indefinite-lived intangible assets, as described below.

*Landfills* — The assessment of impairment indicators and the recoverability of our capitalized costs associated with landfills and related expansion projects require significant judgment due to the unique nature of the waste industry, the highly regulated permitting process and the sensitive estimates involved. During the review of a landfill expansion application, a regulator may initially deny the expansion application although the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace, or a landfill may be required to cease accepting waste, prior to receipt of the expansion permit. However, such events occur in the ordinary course of business in the waste industry and do not necessarily result in impairment of our landfill assets because, after consideration of all facts, such events may not affect our belief that we will ultimately obtain the expansion permit. As a result, our tests of recoverability, which generally make use of a probability-weighted cash flow estimation approach, may indicate that no impairment loss should be recorded. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — *Critical Accounting Estimates and Assumptions* — *Expansion Airspace* above for discussion of criteria involved in assessing our likelihood of obtaining an expansion permit. At December 31, 2013, one of our landfill sites for which we believe receipt of the expansion permit is probable, is not currently accepting waste. The net recorded capitalized landfill asset cost for this site was \$261 million at December 31, 2013. We performed a test of recoverability for this landfill and the undiscounted cash flows resulting from our probability-weighted estimation approach significantly exceeded the carrying value of this site. During the year ended December 31, 2013, we recognized \$262 million of charges to impair certain of our landfills, primarily as a result of our consideration of management’s decision in the fourth quarter of 2013 not to actively pursue expansion and/or development of such landfills. These charges were primarily associated with two landfills in our Eastern Canada Area, which are no longer accepting waste. We had previously concluded that receipt of permits for these landfills was probable. However, in connection with our asset rationalization and capital allocation analysis, which was influenced, in some cases, by our acquisition of RCI, we determined that the future costs to construct these landfills could be avoided as we are able to allocate disposal that would have gone to these landfills to other facilities and not materially impact operations. As a result of management’s decision, we determined that the carrying values of landfill assets were no longer able to be recovered by the undiscounted cash flows attributable to these assets. As such, we wrote their carrying values down to their estimated fair values using a market approach considering the highest and best use of the assets.

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — *(Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items* and Note 13 to the Consolidated Financial Statements for additional information related to landfill asset impairments recognized during the reported periods.



*Goodwill* — At least annually, and more frequently if warranted on a nonrecurring basis, we assess our goodwill for impairment using Level 3 inputs.

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments. Our qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we will not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, we perform a quantitative assessment, or two-step impairment test, to determine whether a goodwill impairment exists at the reporting unit. The first step in our quantitative assessment identifies potential impairments by comparing the estimated fair value of the reporting unit to its carrying value, including goodwill. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. Fair value is typically estimated using a combination of the income approach and market approach or only an income approach when applicable. The income approach is based on the long-term projected future cash flows of the reporting units. We discount the estimated cash flows to present value using a weighted-average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting units' expected long-term performance considering the economic and market conditions that generally affect our business. The market approach estimates fair value by measuring the aggregate market value of publicly-traded companies with similar characteristics to our business as a multiple of their reported cash flows. We then apply that multiple to the reporting units' cash flows to estimate their fair values. We believe that this approach is appropriate because it provides a fair value estimate using valuation inputs from entities with operations and economic characteristics comparable to our reporting units.

Fair value computed by these two methods is arrived at using a number of factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them to this analysis. However, we believe that these two methods provide a reasonable approach to estimating the fair value of our reporting units.

As a result of our annual fourth quarter impairment tests for our Wheelabrator business during the years ended December 31, 2012 and 2011, we concluded that goodwill was not impaired. In the second quarter of 2012, we believed an impairment indicator existed such that the fair value of our Wheelabrator business could potentially be less than its carrying amount because of the negative effect on our revenues of the continued deterioration of electricity commodity prices, coupled with our continued increased exposure to market prices as a result of the expiration of several long-term, fixed-rate electricity commodity contracts at our waste-to-energy and independent power facilities, and the expiration of several long-term disposal contracts at above-market rates. We performed the interim quantitative assessment using both an income and a market approach in the second quarter of 2012, which indicated that the estimated fair value of our Wheelabrator business exceeded its carrying value. In the fourth quarter of 2012, we again performed our annual impairment test of our goodwill balances, which indicated that the estimated fair value of our Wheelabrator business exceeded its carrying value by approximately 10% compared to an excess of 30% at our annual fourth quarter 2011 test. This quantitative assessment was performed using both an income and market approach.

During 2013, we noted no indicators of impairment that required us to perform an interim impairment test; however, during our annual impairment test of our goodwill balances we determined the fair value of our Wheelabrator business had declined and the associated goodwill was impaired. As a result, we recognized an impairment charge of \$483 million, which had no related tax benefit. We estimated the implied fair value of our Wheelabrator reporting unit goodwill using a combination of income and market approaches. Because the annual impairment test indicated that Wheelabrator's carrying value exceeded its estimated fair value, we performed the "step two" analysis. In the "step two" analysis, the fair values of all assets and liabilities were estimated, including tangible assets, power contracts, customer relationships and trade name for the purpose of deriving an estimate of the implied fair value of goodwill. The implied fair value of goodwill was then compared to the

carrying amount of goodwill to determine the amount of the impairment. The factors contributing to the \$483 million goodwill impairment charge principally relate to the continued challenging business environment in areas of the country in which Wheelabrator operates, characterized by lower available disposal volumes (which impact disposal rates and overall disposal revenue, as well as the amount of electricity Wheelabrator is able to generate), lower electricity pricing due to the pricing pressure created by availability of natural gas and increased operating costs as our facilities age. These factors caused us, relative to the 2012 impairment test, to lower assumptions for electricity and disposal revenue, and increase assumed operating costs. Additionally, the discount factor utilized in the income approach increased relative to that utilized in 2012 mainly due to increases in interest rates. If market prices for electricity are lower than our projections, our disposal volumes or rates decline, our costs or capital expenditures exceed our forecasts or our costs of capital increase, the estimated fair value of our Wheelabrator business could further decrease and potentially result in an additional impairment charge in a future period. We will continue to monitor our Wheelabrator business and the recoverability of the remaining \$305 million goodwill balance.

As a result of our annual fourth quarter impairment tests for our Eastern Canada Area during the years ended December 31, 2013, 2012 and 2011, we concluded that goodwill was not impaired. In 2013 and 2012, our annual goodwill impairment tests indicated that the estimated fair value of our Eastern Canada Area exceeded its carrying value by approximately 15% and 5%, respectively. These quantitative assessments were performed using both an income and market approach. If we do not achieve our anticipated disposal volumes, our collection or disposal rates decline, our costs or capital expenditures exceed our forecasts, costs of capital increase, or we do not receive anticipated landfill expansions, the estimated fair value of our Eastern Canada Area could decrease and potentially result in an impairment charge in a future period. We will continue to monitor our Eastern Canada Area.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — *Goodwill Impairments* and Notes 6 and 13 to the Consolidated Financial Statements for additional information related to goodwill impairments recognized during the reported periods.

*Indefinite-Lived Intangible Assets Other Than Goodwill* — At least annually, and more frequently if warranted, we assess indefinite-lived intangible assets other than goodwill for impairment.

When performing the impairment test for indefinite-lived intangible assets, we generally first conduct a qualitative analysis to determine whether we believe it is more likely than not that an asset has been impaired. If we believe an impairment has occurred, we then evaluate for impairment by comparing the estimated fair value of assets to the carrying value. An impairment charge is recognized if the asset's estimated fair value is less than its carrying value.

Fair value is typically estimated using an income approach. The income approach is based on the long-term projected future cash flows. We discount the estimated cash flows to present value using a weighted-average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the expected long-term performance considering the economic and market conditions that generally affect our business.

Fair value computed by this method is arrived at using a number of factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them to this analysis. However, we believe that this method provides a reasonable approach to estimating the fair value of the reporting units.

#### *Deferred Income Taxes*

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carry-forwards and are reduced by a valuation allowance if, based on available

evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves for uncertain tax positions when, despite our belief that our tax return positions are fully supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our provision for income taxes.

#### *Insured and Self-Insured Claims*

We have retained a significant portion of the risks related to our health and welfare, automobile, general liability and workers' compensation insurance programs. Our liabilities associated with the exposure for unpaid claims and associated expenses, including incurred but not reported losses, are based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions used. Estimated recoveries associated with our insured claims are recorded as assets when we believe that the receipt of such amounts is probable.

### **Results of Operations**

#### *Operating Revenues*

Our operating revenues generally come from fees charged for our collection, disposal, transfer, recycling and resource recovery, and waste-to-energy services and from sales of commodities by our recycling, waste-to-energy and landfill gas-to-energy operations. Revenues from our collection operations are influenced by factors such as collection frequency, type of collection equipment furnished, type and volume or weight of the waste collected, distance to the disposal facility or MRF and our disposal costs. Revenues from our landfill operations consist of tipping fees, which are generally based on the type and weight or volume of waste being disposed of at our disposal facilities. Fees charged at transfer stations are generally based on the weight or volume of waste deposited, taking into account our cost of loading, transporting and disposing of the solid waste at a disposal site. Recycling revenue generally consists of tipping fees and the sale of recyclable commodities to third parties. The fees we charge for our collection, disposal, transfer and recycling services generally include fuel surcharges, which are indexed to current market costs for diesel fuel. Our waste-to-energy revenues, which are generated by our Wheelabrator business, are based on the type and weight or volume of waste received at our waste-to-energy facilities and IPPs and amounts charged for the sale of energy and steam. Our "Other" lines of business include WM Sustainability Business Services, our landfill gas-to-energy operations, Port-O-Let® services, portable self-storage, fluorescent lamp recycling and oil and gas producing properties. Intercompany revenues between our operations have been eliminated in the consolidated financial statements. These operations are presented as "Other" in the table below. Shown below (in millions) is the contribution to revenues during each year by reportable segment:

|                    | <b>Years Ended December 31,</b> |                 |                 |
|--------------------|---------------------------------|-----------------|-----------------|
|                    | <b>2013</b>                     | <b>2012</b>     | <b>2011</b>     |
| Solid Waste:       |                                 |                 |                 |
| Tier 1 .....       | \$ 3,487                        | \$ 3,370        | \$ 3,337        |
| Tier 2 .....       | 6,438                           | 6,273           | 6,332           |
| Tier 3 .....       | <u>3,552</u>                    | <u>3,413</u>    | <u>3,329</u>    |
| Solid Waste .....  | 13,477                          | 13,056          | 12,998          |
| Wheelabrator ..... | 845                             | 846             | 877             |
| Other .....        | 2,185                           | 2,106           | 1,534           |
| Intercompany ..... | <u>(2,524)</u>                  | <u>(2,359)</u>  | <u>(2,031)</u>  |
| Total .....        | <u>\$13,983</u>                 | <u>\$13,649</u> | <u>\$13,378</u> |



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

|                        | Years Ended December 31, |                 |                 |
|------------------------|--------------------------|-----------------|-----------------|
|                        | 2013                     | 2012            | 2011            |
| Collection:            |                          |                 |                 |
| Commercial .....       | \$ 3,423                 | \$ 3,417        | \$ 3,499        |
| Residential .....      | 2,608                    | 2,584           | 2,609           |
| Industrial .....       | 2,209                    | 2,129           | 2,052           |
| Other .....            | <u>273</u>               | <u>275</u>      | <u>246</u>      |
| Total collection ..... | 8,513                    | 8,405           | 8,406           |
| Landfill .....         | 2,790                    | 2,685           | 2,611           |
| Transfer .....         | 1,329                    | 1,296           | 1,280           |
| Wheelabrator .....     | 845                      | 846             | 877             |
| Recycling .....        | 1,447                    | 1,360           | 1,580           |
| Other .....            | 1,583                    | 1,416           | 655             |
| Intercompany(b) .....  | <u>(2,524)</u>           | <u>(2,359)</u>  | <u>(2,031)</u>  |
| Total .....            | <u>\$13,983</u>          | <u>\$13,649</u> | <u>\$13,378</u> |

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

|                                    | Period-to-Period<br>Change<br>2013 vs. 2012 |                                  | Period-to-Period<br>Change<br>2012 vs. 2011 |                                  |
|------------------------------------|---------------------------------------------|----------------------------------|---------------------------------------------|----------------------------------|
|                                    | Amount                                      | As a % of<br>Total<br>Company(a) | Amount                                      | As a % of<br>Total<br>Company(a) |
| Average yield(b) .....             | \$ 206                                      | 1.5%                             | \$(319)                                     | (2.4)%                           |
| Volume .....                       | <u>(133)</u>                                | <u>(1.0)</u>                     | <u>67</u>                                   | <u>0.5</u>                       |
| Internal revenue growth .....      | 73                                          | 0.5                              | (252)                                       | (1.9)                            |
| Acquisitions .....                 | 292                                         | 2.1                              | 535                                         | 4.0                              |
| Divestitures .....                 | (6)                                         | —                                | (4)                                         | —                                |
| Foreign currency translation ..... | <u>(25)</u>                                 | <u>(0.2)</u>                     | <u>(8)</u>                                  | <u>(0.1)</u>                     |
| Total .....                        | <u>\$ 334</u>                               | <u>2.4%</u>                      | <u>\$ 271</u>                               | <u>2.0%</u>                      |

- (a) Calculated by dividing the amount of current year increase or decrease by the prior year's total company revenue adjusted to exclude the impacts of current year divestitures (\$13,643 million and \$13,374 million for 2013 and 2012, respectively).

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

|                                             | Period-to-Period<br>Change<br>2013 vs. 2012 |                                     | Period-to-Period<br>Change<br>2012 vs. 2011 |                                     |
|---------------------------------------------|---------------------------------------------|-------------------------------------|---------------------------------------------|-------------------------------------|
|                                             | Amount                                      | As a % of<br>Related<br>Business(i) | Amount                                      | As a % of<br>Related<br>Business(i) |
| Average yield:                              |                                             |                                     |                                             |                                     |
| Collection, landfill and transfer . . . . . | \$241                                       | 2.2%                                | \$ 107                                      | 1.0%                                |
| Waste-to-energy disposal(ii) . . . . .      | (6)                                         | (1.4)                               | (21)                                        | (4.6)                               |
| Collection and disposal(ii) . . . . .       | 235                                         | 2.1                                 | 86                                          | 0.8                                 |
| Recycling commodities . . . . .             | (79)                                        | (5.8)                               | (428)                                       | (26.6)                              |
| Electricity(ii) . . . . .                   | 18                                          | 6.8                                 | (10)                                        | (3.7)                               |
| Fuel surcharges and mandated fees . . . . . | 32                                          | 4.9                                 | 33                                          | 5.3                                 |
| Total . . . . .                             | <u>\$206</u>                                | 1.5                                 | <u>\$(319)</u>                              | (2.4)                               |

- (i) Calculated by dividing the increase or decrease for the current year by the prior year's related business revenue, adjusted to exclude the impacts of divestitures for the current year. The table below summarizes the related business revenues for each year, adjusted to exclude the impacts of divestitures (in millions):

|                                             | Denominator     |                 |
|---------------------------------------------|-----------------|-----------------|
|                                             | 2013            | 2012            |
| Related-business revenues:                  |                 |                 |
| Collection, landfill and transfer . . . . . | \$10,939        | \$10,414        |
| Waste-to-energy disposal . . . . .          | <u>431</u>      | <u>457</u>      |
| Collection and disposal . . . . .           | 11,370          | 10,871          |
| Recycling commodities . . . . .             | 1,357           | 1,612           |
| Electricity . . . . .                       | 266             | 273             |
| Fuel surcharges and mandated fees . . . . . | <u>650</u>      | <u>618</u>      |
| Total Company . . . . .                     | <u>\$13,643</u> | <u>\$13,374</u> |

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

Our revenues increased \$334 million, or 2.4%, and \$271 million, or 2.0%, for the years ended December 31, 2013 and 2012, respectively. The year-over-year change in revenues for both periods has been driven by (i) acquisitions, particularly the acquisitions of Greenstar in January 2013 and RCI in July 2013, which increased revenues by \$138 million and \$80 million, respectively, and the acquisition of Oakleaf in July 2011, which increased revenues by \$314 million for 2012; (ii) increased revenue growth from our collection and disposal average yield; (iii) higher revenues provided by our fuel surcharge program; (iv) market factors, including fluctuations in electricity prices at our merchant waste-to-energy facilities that favorably affected our revenues in 2013 but negatively affected our revenues in 2012; recyclable commodity prices that negatively affected

revenues in both 2013 and 2012 and foreign currency translation, which negatively affected revenues from our Canadian operations in both 2013 and 2012 and (v) lower volumes, which drove revenue declines in 2013, while higher volumes drove revenue increases in 2012.

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

#### *Average yield*

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

Revenue growth from collection and disposal average yield was \$235 million, or 2.1%, and \$86 million, or 0.8%, for the years ended December 31, 2013 and 2012, respectively. This revenue growth from yield in 2013 was primarily driven by an aggressive pricing strategy, which decreased the dollar impact of rollbacks associated with those price increases and improved pricing on our new business, primarily in our collection operations, with growth of \$232 million for the year ended December 31, 2013. We experienced growth in all three of our principal collection lines of business in both 2013 and 2012, as follows:

|                   | Average Yield<br>Years Ended December 31, |      |
|-------------------|-------------------------------------------|------|
|                   | 2013                                      | 2012 |
| Commercial .....  | 3.3%                                      | 1.4% |
| Industrial .....  | 4.5%                                      | 1.9% |
| Residential ..... | 1.8%                                      | 0.6% |

While our collection line of business was the primary driver of the year-over-year yield growth in both periods presented, our 2013 growth was more significant than our growth during 2012. This was driven, in part, by our more aggressive pricing strategy implemented in 2013. Conversely, our revenue growth due to volume has been negatively affected by our pricing strategy, with more significant volume declines during 2013. However, our pricing actions and our focus on controlling variable costs have consistently provided margin improvements in our collection line of business.

Part of the year-over-year revenue growth from yield in 2013 is attributable to the new regulatory cost recovery fee that we instituted in April 2013 to help us recover a portion of the significant regulatory costs and fees, such as host fees and disposal taxes, which have not been recouped by our pricing programs. This new fee contributed approximately \$43 million to our revenue growth for the year ended December 31, 2013, principally in our collection business, with the most significant impact in our commercial collection line of business. Additionally, revenue growth from yield in our industrial line of business was aided by our continued expansion in the Energy Service business, which typically has higher average rates due to extended transportation distances, special waste handling costs and higher disposal costs. With respect to our residential line of business, we are focused on bidding on contracts that improve our yield performance and increase our overall returns. Our effort to increase yield in our residential line of business is a challenge due principally to a very competitive environment. A high percentage of our residential business is in municipal franchise markets, and many municipalities are facing significant budget challenges, which results in very competitive bid processes as we rebid contracts and try to win new contracts. Finally, yield growth from our landfill and transfer station operations also increased for both 2013 and 2012. Improving yield in our landfill business has proved to be a challenge, due, in part, to excess disposal capacity that exists in many of the markets in which we own or operate landfills.

The expiration and renegotiation of two long-term waste-to-energy disposal contracts in South Florida at lower rates negatively impacted our revenue growth from yield in our waste-to-energy line of business by \$6 million and \$21 million for the years ended December 31, 2013 and 2012, respectively. The year-over-year negative impact from the renegotiated contracts will continue through the first half of 2014.

Revenues from our environmental fee, which are included in average yield on collection and disposal, totaled \$344 million in both 2013 and 2012 and \$303 million in 2011. Revenue increase from environmental fees flattened, as we did not implement fee increases in 2013 commensurate with the prior year. Additionally, as mentioned above, we instituted a new regulatory cost recovery fee in April 2013 that contributed approximately \$43 million to revenue growth for the year ended December 31, 2013.

*Recycling commodities* — Year-over-year commodity price declines of approximately 5% and 25% resulted in decreased revenues of \$79 million and \$428 million for the years ended December 31, 2013 and 2012, respectively. The estimated negative impact on income from operations was approximately \$20 million and \$130 million for years ended December 31, 2013 and 2012, respectively.

*Fuel surcharges and mandated fees* — These revenues, which are predominantly generated by our fuel surcharge program, increased by \$32 million and \$33 million for the years ended December 31, 2013 and 2012, respectively. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. Although we experienced lower year-over-year average fuel prices in 2013, our fuel surcharge revenues increased as a result of a revision of the surcharge calculation implemented to better capture price increases intended to be recovered by the surcharge. The mandated fees included in this line item are primarily related to pass-through fees and taxes assessed by various state, county and municipal government agencies at our landfills and transfer stations.

*Volume* — Changes in our volume caused our revenue to decrease \$133 million, or 1.0%, for the year ended December 31, 2013. This is a notable decrease when compared to our revenue increase on account of volume of \$67 million, or 0.5%, for the year ended December 31, 2012. Our volume fluctuations are generally attributable to economic conditions, pricing changes, competition and diversion of waste by customers. Our collection business experienced revenue declines due to lower volumes in both periods presented. Collection business revenue declines due to lower volumes were \$170 million for 2013 and \$65 million in 2012. Our more aggressive pricing strategy during 2013 was a significant contributor to the higher volume declines.

Other drivers affecting the comparability of volumes for the periods presented include:

- *Strategic accounts* — We experienced revenue declines due to lower volumes associated with the loss of certain strategic accounts including certain large retail mall customers in 2013.
- *Hurricane Sandy* — The \$26 million of revenues resulting from the Hurricane Sandy cleanup efforts in the fourth quarter of 2012, primarily in the landfill line of business, negatively affected our year-over-year volume change for the year ended December 31, 2013 while favorably affecting volume in 2012.
- *Higher landfill volumes* — We experienced higher landfill volumes in both comparable periods. In 2013, higher landfill volumes were primarily driven by our municipal solid waste business while higher special waste volumes in the eastern and mid-western parts of the country were the principal contributor to our higher landfill volumes in 2012.
- *Recycling commodities* — Revenues increased from year-over-year volume growth in our recycling brokerage business and our material recovery facilities for both 2013 and 2012. The additional recycling capacity that we added in 2011 and 2012 contributed to this increase in revenues due to volume.

*Acquisitions* — Revenues increased \$292 million and \$535 million for the years ended December 31, 2013 and 2012, respectively, due to acquisitions. In 2013, the revenue increase due to acquisition was principally associated with the acquisition of Greenstar, which is reported in our “Recycling” line of business, and the acquisition of RCI, which is reported primarily in our “Collection” line of business. In 2012, the significant revenue increase due to acquisitions was principally associated with Oakleaf, included in our “Other” business,

which anniversaried in July 2012. Additionally, in 2012, acquisitions increased our revenues in our collection line of business, due in part to our Energy Service and recycling lines of business. These acquisitions demonstrate our focus on identifying strategic growth opportunities in new, complementary lines of business.

### ***Operating Expenses***

Our operating expenses include (i) labor and related benefits (excluding labor costs associated with maintenance and repairs discussed below), which include salaries and wages, bonuses, 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 equipment, vehicles and facilities and related labor costs; (iv) subcontractor costs, which include the costs of independent haulers who transport waste collected by us to disposal facilities and are affected by variables such as volumes, distance and fuel prices; (v) costs of goods sold, which are primarily rebates paid to suppliers associated with recycling commodities; (vi) fuel costs, which represent the costs of fuel and oil to operate our truck fleet and landfill operating equipment; (vii) disposal and franchise fees and taxes, which include landfill taxes, municipal franchise fees, host community fees, contingent landfill lease payments and royalties; (viii) landfill operating costs, which include interest accretion on landfill liabilities, interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets, leachate and methane collection and treatment, landfill remediation costs and other landfill site costs; (ix) risk management costs, which include auto liability, workers' compensation, general liability and insurance and claim costs and (x) other operating costs, which include telecommunications, equipment and facility rent, property taxes, utilities and supplies.

Our operating expenses increased \$233 million, or 2.6%, when comparing 2013 with 2012 and increased \$338 million, or 4.0%, when comparing 2012 with 2011. Operating expenses as a percentage of revenues were 65.2% in 2013, 65.1% in 2012 and 63.8% in 2011. The increases in our operating expenses during the years ended December 31, 2013 and 2012 can largely be attributed to the following:

*Acquisitions* — During the three years ended December 31, 2013, we made three acquisitions that were the most significant drivers of our operating expense increases. In January 2013, we acquired Greenstar, an operator of recycling and resource recovery facilities. The acquisition primarily increased cost of goods sold and, to a lesser extent, labor and related benefits and other categories. In July 2013, we acquired RCI, a waste management company comprised of collection, transfer, recycling and disposal operations. The acquisition increased operating costs, primarily in subcontractor costs and, to a lesser extent, cost of goods sold. The Oakleaf acquisition contributed to higher operating costs in 2012 when compared to the prior year period, primarily impacting subcontractor costs. The increase in operating expenses was incurred in connection with the related acquisition revenues discussed above in *Operating Revenues*.

The following table summarizes the major components of our operating expenses, including the impact of foreign currency translation, for the years ended December 31 (dollars in millions):

|                                       | 2013           | Period-to-Period<br>Change |             | 2012           | Period-to-Period<br>Change |             | 2011           |
|---------------------------------------|----------------|----------------------------|-------------|----------------|----------------------------|-------------|----------------|
| Labor and related benefits            | \$2,506        | \$ 99                      | 4.1%        | \$2,407        | \$ 71                      | 3.0%        | \$2,336        |
| Transfer and disposal costs           | 973            | 9                          | 0.9         | 964            | 27                         | 2.9         | 937            |
| Maintenance and repairs               | 1,181          | 24                         | 2.1         | 1,157          | 67                         | 6.1         | 1,090          |
| Subcontractor costs                   | 1,182          | (8)                        | (0.7)       | 1,190          | 242                        | 25.5        | 948            |
| Cost of goods sold                    | 1,000          | 81                         | 8.8         | 919            | (152)                      | (14.2)      | 1,071          |
| Fuel                                  | 603            | (46)                       | (7.1)       | 649            | 21                         | 3.3         | 628            |
| Disposal and franchise fees and taxes | 653            | 23                         | 3.7         | 630            | 28                         | 4.7         | 602            |
| Landfill operating costs              | 232            | 8                          | 3.6         | 224            | (31)                       | (12.2)      | 255            |
| Risk management                       | 244            | 14                         | 6.1         | 230            | 8                          | 3.6         | 222            |
| Other                                 | 538            | 29                         | 5.7         | 509            | 57                         | 12.6        | 452            |
|                                       | <u>\$9,112</u> | <u>\$233</u>               | <u>2.6%</u> | <u>\$8,879</u> | <u>\$ 338</u>              | <u>4.0%</u> | <u>\$8,541</u> |

Significant changes in our operating expenses are discussed below.

- *Labor and related benefits* — Significant items affecting the comparability of expenses for the periods presented include:
  - Higher wages due to merit increases effective in the second quarter of 2013 and the effect of acquisitions, particularly the Greenstar acquisition in 2013;
  - Incentive compensation expense fluctuations due to higher anticipated payouts for 2013 as compared to the prior year period and lower payouts for 2012 as compared to 2011;
  - Increased contract labor in both 2013 and 2012 principally attributed to the recycling line of business;
  - Headcount, exclusive of acquisitions, decreased in 2013 compared to the prior year period; conversely, headcount increased in 2012 when compared to 2011; and
  - Non-cash charges incurred during the third quarter of 2013 and the second quarter of 2012 as a result of our partial withdrawals from underfunded multiemployer pension plans.
- *Maintenance and repairs* — The increase in 2013 compared to 2012 was driven by (i) the Greenstar acquisition and (ii) higher internal shop labor costs due in part to higher incentive compensation and merit increases. The increase in 2012 as compared to 2011 is primarily due to (i) increased fleet maintenance costs, which include services provided by third-parties, tires, parts and internal shop labor costs and (ii) differences in the timing and scope of planned maintenance projects at our waste-to-energy facilities.
- *Subcontractor costs* — The decrease in 2013 was driven primarily by the volume decline associated with the loss of certain strategic accounts. These decreases were offset, in part, by higher costs associated with the acquired RCI operations. The increase in 2012 was driven in part by (i) the acquisition of Oakleaf in July 2011 and (ii) increased volumes related to Hurricane Sandy.
- *Cost of goods sold* — The increase in cost of goods sold in 2013 is due in large part to higher customer rebates resulting from higher volumes in our recycling commodity business driven primarily by the acquired Greenstar operations. The significantly reduced market prices for recyclable commodities in 2012 drove the majority of the cost decrease when compared to the prior period.
- *Fuel* — The decrease in fuel expense in 2013 compared to 2012 was due to (i) a retroactive CNG fuel excise tax credit recognized in the first quarter of 2013; (ii) reduced fuel purchases due to reduced collection volumes; (iii) lower costs as we convert our fleet to CNG vehicles and (iv) lower diesel fuel prices. The increase in fuel expense in 2012 compared to 2011 was mainly driven by higher diesel fuel prices.

- *Disposal and franchise fees and taxes* — The increase in costs in both 2013 and 2012 can be attributable to higher disposal fees and taxes due to higher landfill volumes. The current period increase was also driven by (i) higher municipal franchise fees relating to the collection line of business and (ii) a disposal surcharge at one of our waste-to-energy facilities. A host fee increase in 2012 contributed to the unfavorable variance when compared to the prior year.
- *Landfill operating costs* — Significant items affecting the comparability of expenses for the periods presented include:
  - Higher leachate costs caused by increased precipitation in several of our Areas for all comparable periods;
  - Favorable adjustments in 2013 and unfavorable adjustments in both 2012 and 2011 related to changes in U.S. Treasury rates used to discount the present value of our environmental remediation obligations and recovery assets; and
  - A favorable remediation adjustment in 2012.
- *Other* — The increased costs in 2013 when compared to 2012 were driven in part by (i) higher telecommunications costs driven by our initiative to equip our fleet with onboard computers; (ii) higher utilities; (iii) higher property taxes and (iv) lower gains on the sale of assets. These increases were offset, in part, by favorable adjustments to contingent consideration associated with the Greenstar acquisition. The increase in costs in 2012 when compared to the prior period was driven in part by (i) costs associated with a 2012 labor union dispute in the Seattle Area; (ii) increased oil and gas development expense in 2012 and (iii) higher rental costs in 2012, primarily associated with Oakleaf.

### ***Selling, General and Administrative***

Our selling, general and administrative expenses consist of (i) labor and related benefit costs, which include salaries, bonuses, related insurance and benefits, contract labor, payroll taxes and equity-based compensation; (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 selling, general and administrative expenses, which include, among other costs, facility-related expenses, voice and data telecommunication, advertising, travel and entertainment, rentals, postage and printing. In addition, the financial impacts of litigation settlements generally are included in our “Other” selling, general and administrative expenses.

Our selling, general and administrative expenses decreased by \$4 million, or 0.3%, and decreased by \$79 million, or 5.1%, when comparing 2013 with 2012 and 2012 with 2011, respectively. Our selling, general and administrative expenses as a percentage of revenues were 10.5% in 2013, 10.8% in 2012 and 11.6% in 2011.

The following table summarizes the major components of our selling, general and administrative costs for the years ended December 31 (dollars in millions):

|                                  | <u>2013</u>    | <u>Period-to-<br/>Period Change</u> |               | <u>2012</u>    | <u>Period-to-<br/>Period Change</u> |               | <u>2011</u>    |
|----------------------------------|----------------|-------------------------------------|---------------|----------------|-------------------------------------|---------------|----------------|
| Labor and related benefits ..... | \$ 931         | \$ 81                               | 9.5%          | \$ 850         | \$(63)                              | (6.9)%        | \$ 913         |
| Professional fees .....          | 131            | (32)                                | (19.6)        | 163            | (22)                                | (11.9)        | 185            |
| Provision for bad debts .....    | 41             | (19)                                | (31.7)        | 60             | 13                                  | 27.7          | 47             |
| Other .....                      | <u>365</u>     | <u>(34)</u>                         | <u>(8.5)</u>  | <u>399</u>     | <u>(7)</u>                          | <u>(1.7)</u>  | <u>406</u>     |
|                                  | <u>\$1,468</u> | <u>\$ (4)</u>                       | <u>(0.3)%</u> | <u>\$1,472</u> | <u>\$(79)</u>                       | <u>(5.1)%</u> | <u>\$1,551</u> |



*Labor and related benefits* — Factors affecting the year-over-year changes in our labor and related benefits costs include:

- Higher incentive compensation costs of \$94 million in 2013 and \$73 million in 2011, as compared with 2012, as a result of higher anticipated payouts.
- Higher non-cash compensation expense recognized in 2013 as compared to 2012, in part due to the payout of performance share units granted in 2010, which was approved in 2013. Expense associated with these awards had been reversed in 2012 when it no longer appeared probable that threshold performance would be achieved.
- Cost savings of \$45 million in 2013 driven primarily from our July 2012 restructuring.

*Professional fees* — Consulting fees declined year over year as company-wide initiatives, which began in 2011, were implemented; partially offset by higher legal fees in 2012 as compared with 2013 and 2011.

*Provision for bad debts* — Our provision for bad debts decreased in 2013 as a result of the collection of certain fully reserved receivables related to our Puerto Rico operations. Additionally, many of the billing delay issues we experienced throughout fiscal year 2012 with certain of our strategic account customers have been resolved, favorably affecting our year-over-year bad debt comparisons.

*Other* — In 2013, controllable costs associated with (i) building and equipment; (ii) advertising; (iii) computer and telecommunication; (iv) travel and entertainment and (v) seminars and education have declined primarily as a result of our July 2012 restructuring and continued focus on cost-control initiatives. In 2012, we experienced decreases in (i) litigation settlement costs and (ii) insurance and claims. These decreases were partially offset by increases in (i) computer and telecommunications costs, due in part to improvements we are making to our information technology systems and (ii) building and equipment costs, which include rental and utilities.

### ***Depreciation and Amortization***

Depreciation and amortization includes (i) depreciation of property and equipment, including assets recorded for capital leases, on a straight-line basis from three to 50 years; (ii) amortization of landfill costs, including those incurred and all estimated future costs for landfill development, construction and asset retirement costs arising from closure and post-closure, on a units-of-consumption method as landfill airspace is consumed over the total estimated remaining capacity of a site, which includes both permitted capacity and expansion capacity that meets our Company-specific criteria for amortization purposes; (iii) amortization of landfill asset retirement costs arising from final capping obligations on a units-of-consumption method as airspace is consumed over the estimated capacity associated with each final capping event and (iv) amortization of intangible assets with a definite life, using either a 150% declining balance approach or a straight-line basis over the definitive terms of the related agreements, which are generally from two to 15 years depending on the type of asset.

The following table summarizes the components of our depreciation and amortization costs for the years ended December 31 (dollars in millions):

|                                                         | 2013           | Period-to-Period Change |      | 2012           | Period-to-Period Change |      | 2011           |
|---------------------------------------------------------|----------------|-------------------------|------|----------------|-------------------------|------|----------------|
| Depreciation of tangible property and equipment . . . . | \$ 853         | \$20                    | 2.4% | \$ 833         | \$33                    | 4.1% | \$ 800         |
| Amortization of landfill airspace . . . . .             | 400            | 5                       | 1.3  | 395            | 17                      | 4.5  | 378            |
| Amortization of intangible assets . . . . .             | 80             | 11                      | 15.9 | 69             | 18                      | 35.3 | 51             |
|                                                         | <u>\$1,333</u> | <u>\$36</u>             | 2.8% | <u>\$1,297</u> | <u>\$68</u>             | 5.5% | <u>\$1,229</u> |



The increase in amortization of intangible assets in 2013 is primarily related to the amortization of customer relationships acquired through our acquisition of RCI. The increase in amortization of intangible assets in 2012 is primarily related to the amortization of customer relationships acquired through our acquisition of Oakleaf in 2011 and by our Areas located in the Northern U.S.

### ***Restructuring***

During the year ended December 31, 2013, we recognized a total of \$18 million of pre-tax restructuring charges, of which \$7 million was related to employee severance and benefit costs, including costs associated with our acquisitions of Greenstar and RCI and our 2012 restructurings. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized. We do not expect to incur any material charges associated with our past restructuring efforts in future periods.

In July 2012, we announced a reorganization of operations, designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations. Principal organizational changes included removing the management layer of our four geographic Groups, each of which previously constituted a reportable segment, and consolidating and reducing the number of our geographic Areas through which we evaluate and oversee our Solid Waste subsidiaries from 22 to 17. This reorganization eliminated approximately 700 employee positions throughout the Company, including positions at both the management and support level. Voluntary separation arrangements were offered to many employees.

During the year ended December 31, 2012, we recognized a total of \$67 million of pre-tax restructuring charges, of which \$56 million were primarily related to employee severance and benefit costs associated with our July 2012 restructuring. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

### ***Goodwill Impairments***

During the year ended December 31, 2013, we recognized \$509 million of goodwill impairment charges, primarily related to (i) \$483 million associated with our Wheelabrator business; (ii) \$10 million associated with our Puerto Rico operations and (iii) \$9 million associated with a majority-owned waste diversion technology company. During the years ended December 31, 2012 and 2011, we recognized goodwill impairment charges of \$4 million and \$1 million, respectively, related to certain of our non-Solid Waste operations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — *Critical Estimates and Assumptions* — *Asset Impairments* and Notes 3 and 6 to the Consolidated Financial Statements for additional information related to these impairment charges as well as the accounting policy and analysis involved in identifying and calculating impairments.

### ***(Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items***

The following table summarizes the major components of "(Income) expense from divestitures, asset impairments and unusual items" for the year ended December 31 for the respective periods (in millions):

|                                          | <b>Years Ended December 31,</b> |                    |                    |
|------------------------------------------|---------------------------------|--------------------|--------------------|
|                                          | <b><u>2013</u></b>              | <b><u>2012</u></b> | <b><u>2011</u></b> |
| (Income) expense from divestitures ..... | \$ (8)                          | \$—                | \$1                |
| Asset impairments .....                  | <u>472</u>                      | <u>79</u>          | <u>8</u>           |
|                                          | <u><u>\$464</u></u>             | <u><u>\$79</u></u> | <u><u>\$9</u></u>  |

During the year ended December 31, 2013, we recognized net charges of \$464 million, primarily related to the following:

- *Landfill impairments* — We recognized \$262 million of charges to impair certain of our landfills, primarily as a result of our consideration of management's decision in the fourth quarter of 2013 not to actively pursue expansion and/or development of such landfills. These charges were primarily associated with two landfills in our Eastern Canada Area, which are no longer accepting waste. We had previously concluded that receipt of permits for these landfills was probable. However, in connection with our asset rationalization and capital allocation analysis, which was influenced, in some cases, by our acquisition of RCI, we determined that the future costs to construct these landfills could be avoided as we are able to allocate disposal that would have gone to these landfills to other facilities and not materially impact operations. As a result of management's decision, we determined that the landfill assets were no longer able to be recovered by the undiscounted cash flows attributable to these assets. As such, we wrote them down to their estimated fair values using a market approach considering the highest and best use of the assets.
- *Waste-to-energy impairments* — We recognized \$144 million of impairment charges relating to three waste-to-energy facilities, primarily as a result of closure or anticipated closure due to continued difficulty securing sufficient volumes to operate the plants at capacity and the prospect of additional capacity entering the market where the largest facility is located. We wrote down the carrying value of our facilities to their estimated fair value using a market approach.
- *Other impairments* — The remainder of our 2013 charges were attributable to (i) \$31 million of charges to impair various recycling assets; (ii) \$20 million of charges to write down assets related to a majority-owned waste diversion technology company and (iii) a \$15 million charge to write down the carrying value of an oil and gas property to its estimated fair value.
- *Divestitures* — Partially offsetting these charges were \$8 million of net gains on divestitures.

During the year ended December 31, 2012, we recognized impairment charges aggregating \$79 million, attributable to (i) \$45 million of charges related to three facilities in our medical waste services business as a result of projected operating losses at each of these facilities; (ii) \$20 million of charges related to investments in waste diversion technology companies and (iii) other charges to write down the carrying value of assets to their estimated fair values, all of which are individually immaterial.

During the year ended December 31, 2011, we recognized impairment charges relating to two facilities in our medical waste services business, in addition to the three facilities impaired in 2012 discussed above, as a result of the closure of one site and continuing operating losses at the other site.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — *Critical Accounting Estimates and Assumptions — Asset Impairments* for additional information related to the accounting policy and analysis involved in identifying and calculating impairments.

In addition to the impairments discussed above, we are continuing to evaluate opportunities associated with the sale or discontinued use of underperforming assets or assets that may no longer meet our strategic objectives. Accordingly, it is possible that additional charges may be recorded as assets are sold or become held-for-sale.

## Income from Operations

The following table summarizes income from operations for the years ended December 31 (dollars in millions):

|                           | 2013           | Period-to-Period Change |         | 2012           | Period-to-Period Change |        | 2011           |
|---------------------------|----------------|-------------------------|---------|----------------|-------------------------|--------|----------------|
| Solid Waste:              |                |                         |         |                |                         |        |                |
| Tier 1 .....              | \$ 852         | \$ 1                    | 0.1%    | \$ 851         | \$ (8)                  | (0.9)% | \$ 859         |
| Tier 2 .....              | 1,291          | 21                      | 1.7     | 1,270          | 33                      | 2.7    | 1,237          |
| Tier 3 .....              | <u>291</u>     | <u>(213)</u>            | (42.3)  | <u>504</u>     | <u>(8)</u>              | (1.6)  | <u>512</u>     |
| Solid Waste .....         | 2,434          | (191)                   | (7.3)   | 2,625          | 17                      | 0.7    | 2,608          |
| Wheelabrator .....        | (517)          | (630)                   | *       | 113            | (59)                    | (34.3) | 172            |
| Other .....               | (171)          | 71                      | (29.3)  | (242)          | (78)                    | 47.6   | (164)          |
| Corporate and other ..... | <u>(667)</u>   | <u>(22)</u>             | 3.4     | <u>(645)</u>   | <u>(57)</u>             | 9.7    | <u>(588)</u>   |
| Total .....               | <u>\$1,079</u> | <u>\$(772)</u>          | (41.7)% | <u>\$1,851</u> | <u>\$(177)</u>          | (8.7)% | <u>\$2,028</u> |

\* Percentage change does not provide a meaningful comparison.

Items affecting the comparability of our results of operations during 2013 and 2012 include (i) restructuring charges recognized in 2012 associated with our July 2012 restructuring; (ii) subsequent benefits realized as a result of our July 2012 restructuring and ongoing cost containment efforts; (iii) increased labor costs due to merit increases effective in 2013 and 2011 and (iv) lower 2012 year-over-year incentive compensation payouts. Also affecting comparability, excluding Wheelabrator, was the reclassification of employees to *Solid Waste* from *Other* and *Corporate and Other*.

*Solid Waste* — Our Solid Waste business income from operations declined \$191 million when comparing 2013 with 2012, principally as a result of \$279 million of net charges primarily related to impairments recognized in 2013. The most significant impairment charges were in our Eastern Canada Area, which is included in Tier 3, and were associated with the impairment of certain landfills as discussed above in *(Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items*. Other significant items affecting the results of operations of our Solid Waste business during the three years ended December 31, 2013 are summarized below:

- Our base business benefited from (i) internal revenue growth, principally in our collection and disposal business and (ii) increased fuel cost recovery in 2013. These favorable variances were offset, in part, by net cost increases mainly driven by higher operating expenses including maintenance and repair and transfer and disposal in 2012;
- Results from our recycling business were lower compared to prior year periods due primarily to (i) lower prices for commodities primarily affecting the 2012 period; (ii) higher processing costs driven in part by increased outbound quality control in 2013 and (iii) operating losses related to the acquired operations of Greenstar in 2013;
- The accretive benefits of the RCI acquisition;
- A decrease in bad debt expense during 2013 due primarily to the collection of receivables previously reserved during 2012, principally in Puerto Rico, which is included in Tier 3;
- A charge for the withdrawal from an underfunded multiemployer pension plan in New England in 2012, which is included in Tier 2;
- Incremental operating expenses due to a labor union dispute in the Pacific Northwest Area in 2012, which is included in Tier 3; and
- A charge associated with a litigation loss in Southern California in 2011, which is included in Tier 2.

*Wheelabrator* — The decrease in income from operations of our Wheelabrator business for the year ended December 31, 2013 as compared to 2012 was largely driven by (i) \$627 million of pre-tax charges to impair goodwill and certain waste-to-energy facilities as discussed above in *Goodwill Impairments and (Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items*; (iii) higher labor costs and (iv) a disposal surcharge at one of our waste-to-energy facilities. The impact of these unfavorable items was offset, in part, by improved energy pricing and metal sales.

The decrease in income from operations in 2012 as compared to 2011 was largely driven by (i) lower revenues due to the expiration of long-term contracts at certain of our waste-to-energy facilities; (ii) lower energy pricing at our merchant facilities; (iii) increased maintenance and repair costs, primarily due to differences in the timing and scope of planned maintenance activities and (iv) increased international development costs.

*Other* — Our “Other” income from operations includes (i) those elements of our in-plant services, landfill gas-to-energy operations, and third-party subcontract and administration revenues managed by our Sustainability Services and Renewable Energy organizations, that are not included with the operations of our reportable segments; (ii) our recycling brokerage and electronic recycling services and (iii) the results of investments that we are making in expanded service offerings, such as portable self-storage and fluorescent lamp recycling, and in oil and gas producing properties. In addition, our “Other” income from operations reflects the results of (i) non-operating entities that provide financial assurance and self-insurance support for our Solid Waste business and (ii) reclasses to include the costs of our former geographic Group offices that, prior to our 2012 restructuring, were included in our operating segments.

Significant items affecting the comparability of expenses for the periods presented include:

- Impairment charges recognized in 2013 and 2012 as discussed in *Goodwill Impairments, Asset Impairments, (Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items, Equity in Net Losses of Unconsolidated Entities and Other, net*;
- Improved results from our organics and medical waste service businesses in 2013;
- Losses in 2013 and 2012 from our efforts to integrate our strategic accounts business with Oakleaf, including the loss of certain strategic accounts. However, in 2013, we have experienced year-over-year improvements as a result of our system and process enhancements; and
- A favorable adjustment to contingent consideration associated with the Greenstar acquisition, offset by higher administrative and restructuring costs associated with the acquired operations.

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

- Lower year-over-year professional fees primarily due to higher consulting fees incurred during 2012 and 2011 in connection with the start-up phase of our cost savings programs;
- Favorable adjustments in 2013 and unfavorable adjustments in both 2012 and 2011 related to changes in U.S. Treasury rates used to discount the present value of our environmental remediation obligations and recovery assets;
- Favorable adjustments to our estimated environmental remediation obligations in 2013 and 2011; and
- Higher year-over-year risk management expense in 2013 and 2012, primarily due to increased overall costs associated with auto and general liability insurance.

### ***Interest Expense***

Our interest expense was \$481 million in 2013, \$488 million in 2012 and \$481 million in 2011. During 2013, our debt balances increased by approximately \$300 million, which can generally be attributed to the debt financing of our acquisition of RCI offset by debt repayments. In spite of this increase in debt, we reduced our interest costs by (i) reducing the interest rate periods of some of our tax-exempt bonds, allowing us to benefit

from lower rates available for shorter-term remarketings; (ii) issuing new debt at lower fixed interest rates than debt repaid upon scheduled maturities and (iii) reducing the cost of our revolving credit facility by amending the credit agreement to provide for lower fees and rates. The increase in interest expense from 2011 to 2012 was primarily due to higher average debt balances, which were incurred to support acquisitions and investments in our long-term growth, and a decrease in the benefits provided by active and terminated interest rate swap agreements. These increases were partially offset by a decrease in interest due to (i) a decline in our weighted average borrowing rate achieved by refinancing matured debt with new borrowings at much lower fixed interest rates and (ii) the impacts that lower market interest rates had on the cost of certain of our tax-exempt debt.

#### ***Equity in Net Losses of Unconsolidated Entities***

We recognized “Equity in net losses of unconsolidated entities” of \$34 million in 2013, \$46 million in 2012 and \$31 million in 2011. These losses are primarily related to our noncontrolling interests in two limited liability companies established to invest in and manage low-income housing properties and a refined coal facility, as well as (i) noncontrolling investments made to support our strategic initiatives and (ii) unconsolidated trusts for final capping, closure, post-closure or environmental obligations. The tax impacts realized as a result of our investments in low-income housing properties and the refined coal facility are discussed below in *Provision for Income Taxes*. Refer to Notes 9 and 20 to the Consolidated Financial Statements for more information related to these investments. The decrease in 2013 is primarily attributable to the recognition of a \$10 million charge in 2012 related to a payment we made under a guarantee on behalf of an unconsolidated entity that went into liquidation. This investment was accounted for under the equity method.

#### ***Other, net***

We recognized other, net expense of \$74 million, \$18 million and \$4 million in 2013, 2012 and 2011, respectively. The expense in 2013 was impacted by impairment charges of \$71 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value, which was primarily determined using an income approach based on estimated future cash flow projections obtained in the fourth quarter of 2013 and, to a lesser extent, third-party investors’ recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment.

The expense in 2012 was impacted by an impairment charge of \$16 million related to an other-than-temporary decline in the value of an investment in a waste diversion technology company accounted for under the cost method. We wrote down the carrying value of our investment to its fair value based on other third-party investors’ recent transactions in these securities, which are considered to be the best evidence of fair value currently available. The remaining expenses recognized during the reported periods are primarily related to the impact of foreign currency translation.

#### ***Provision for Income Taxes***

We recorded provisions for income taxes of \$364 million in 2013, \$443 million in 2012 and \$511 million in 2011. These tax provisions resulted in an effective income tax rate of approximately 73.8%, 34.0%, and 33.6% for 2013, 2012 and 2011, respectively. The comparability of our reported income taxes for the years ended December 31, 2013, 2012 and 2011 is primarily affected by (i) variations in our income before income taxes; (ii) federal tax credits ; (iii) tax audit settlements; (iv) the realization of federal and state net operating loss and credit carry-forwards and (v) the tax implications of impairments. The impacts of these items are summarized below:

- *Investment in Refined Coal Facility* — Our refined coal facility investment and the resulting credits reduced our provision for income taxes by \$20 million, \$21 million and \$17 million for the years ended December 31, 2013, 2012 and 2011, respectively. Refer to Note 9 to the Consolidated Financial Statements for more information related to our refined coal facility investment.

- *Investment in Low-Income Housing Properties* — Our low-income housing investment and the resulting federal tax credits reduced our provision for income taxes by \$38 million for each of the years ended December 31, 2013, 2012 and 2011. Refer to Note 9 to the Consolidated Financial Statements for more information related to our low-income housing investment.
- *Tax Audit Settlements* — The settlement of various tax audits resulted in reductions in income tax expense of \$11 million, \$10 million and \$12 million for the years ended December 31, 2013, 2012 and 2011, respectively.
- *State Net Operating Loss and Credit Carry-forwards* — During 2013, 2012 and 2011, we recognized state net operating loss and credit carry-forwards resulting in a reduction to our provision for income taxes of \$16 million, \$5 million and \$4 million, respectively.
- *Federal Net Operating Loss Carry-Forwards* — During 2012, we recognized additional federal net operating loss carry-forwards resulting in a reduction to our provision for income taxes of \$8 million.
- *Tax Implications of Impairments* — During 2013 and 2012, the recording of impairments and the related income tax impacts resulted in permanent differences which increased our provision for income taxes by \$235 million and \$7 million, respectively. See Notes 6 and 13 to the Consolidated Financial Statements for more information related to asset impairments and unusual items.

We expect our 2014 recurring effective tax rate will be approximately 35.0% based on projected income levels, federal tax credits and other permanent items.

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013. However, the ability to accelerate depreciation deductions decreased our 2013 cash taxes by approximately \$70 million. Taking the accelerated tax depreciation will result in increased cash taxes in subsequent periods when the deductions for these capital expenditures would have otherwise been taken.

### ***Noncontrolling Interests***

Net income attributable to noncontrolling interests was \$32 million in 2013, \$43 million in 2012 and \$48 million in 2011. These amounts are principally related to third parties' equity interests in two limited liability companies that own three waste-to-energy facilities operated by our Wheelabrator business. Refer to Note 20 to the Consolidated Financial Statements for information related to the consolidation of these variable interest entities. The decrease in 2013 is primarily due to the net loss of \$10 million attributable to noncontrolling interest holders associated with the \$20 million impairment charge related to a majority-owned waste diversion technology company discussed above in *(Income) Expense from Divestitures, Asset Impairments (Other than Goodwill) and Unusual Items*.



### ***Landfill and Environmental Remediation Discussion and Analysis***

We owned or operated 262 solid waste and five secure hazardous waste landfills at December 31, 2013 and 264 solid waste and five secure hazardous waste landfills at December 31, 2012. At December 31, 2013 and 2012, the expected remaining capacity, in cubic yards and tonnage of waste that can be accepted at our owned or operated landfills, is shown below (in millions):

|                                 | <b>December 31, 2013</b>            |                           |                       | <b>December 31, 2012</b>            |                           |                       |
|---------------------------------|-------------------------------------|---------------------------|-----------------------|-------------------------------------|---------------------------|-----------------------|
|                                 | <b>Remaining Permitted Capacity</b> | <b>Expansion Capacity</b> | <b>Total Capacity</b> | <b>Remaining Permitted Capacity</b> | <b>Expansion Capacity</b> | <b>Total Capacity</b> |
| Remaining cubic yards . . . . . | 4,839                               | 279                       | 5,118                 | 4,778                               | 592                       | 5,370                 |
| Remaining tonnage . . . . .     | 4,769                               | 282                       | 5,051                 | 4,558                               | 612                       | 5,170                 |

Based on remaining permitted airspace as of December 31, 2013 and projected annual disposal volumes, the weighted average remaining landfill life for all of our owned or operated landfills is approximately 46 years. Many of our landfills have the potential for expanded disposal capacity beyond what is currently permitted. We monitor the availability of permitted disposal capacity at each of our landfills and evaluate whether to pursue an expansion at a given landfill based on estimated future waste volumes and prices, remaining capacity and likelihood of obtaining an expansion permit. We are seeking expansion permits at 25 of our landfills that meet the expansion criteria outlined in the *Critical Accounting Estimates and Assumptions* section above. Although no assurances can be made that all future expansions will be permitted or permitted as designed, the weighted average remaining landfill life for all owned or operated landfills is approximately 49 years when considering remaining permitted airspace, expansion airspace and projected annual disposal volume.

The number of landfills we own or operate as of December 31, 2013, segregated by their estimated operating lives (in years), based on remaining permitted and expansion airspace and projected annual disposal volume, was as follows:

|                                     | <b>0 to 5</b> | <b>6 to 10</b> | <b>11 to 20</b> | <b>21 to 40</b> | <b>41+</b> | <b>Total</b> |
|-------------------------------------|---------------|----------------|-----------------|-----------------|------------|--------------|
| Owned . . . . .                     | 9             | 12             | 29              | 63              | 96         | 209          |
| Operated through lease(a) . . . . . | 6             | 3              | 4               | 2               | 7          | 22           |
| Operating contracts(b) . . . . .    | <u>11</u>     | <u>5</u>       | <u>7</u>        | <u>5</u>        | <u>8</u>   | <u>36</u>    |
| Total landfills . . . . .           | <u>26</u>     | <u>20</u>      | <u>40</u>       | <u>70</u>       | <u>111</u> | <u>267</u>   |

- (a) Landfills we operate through lease agreements are similar to landfills we own because we own the landfill's operating permit and will operate the landfill for the entire lease term, which in many cases is the life of the landfill. We are usually responsible for the final capping, closure and post-closure obligations of the landfills we lease.
- (b) For operating contracts, the property owner owns the permit and we operate the landfill for a contracted term, which may be the life of the landfill. However, we are generally responsible for final capping, closure and post-closure obligations under the operating contracts.

The following table reflects landfill capacity and airspace changes, as measured in tons of waste, for landfills owned or operated by us during the years ended December 31, 2013 and 2012 (in millions):

|                                                                              | December 31, 2013            |                    |                | December 31, 2012            |                    |                |
|------------------------------------------------------------------------------|------------------------------|--------------------|----------------|------------------------------|--------------------|----------------|
|                                                                              | Remaining Permitted Capacity | Expansion Capacity | Total Capacity | Remaining Permitted Capacity | Expansion Capacity | Total Capacity |
| Balance, beginning of year . . . . .                                         | 4,558                        | 612                | 5,170          | 4,485                        | 621                | 5,106          |
| Acquisitions, divestitures, newly permitted landfills and closures . . . . . | 22                           | —                  | 22             | 82                           | —                  | 82             |
| Changes in expansions pursued(a) . . . . .                                   | —                            | 33                 | 33             | —                            | 9                  | 9              |
| Expansion permits granted(b) . . . . .                                       | 364                          | (364)              | —              | 40                           | (40)               | —              |
| Airspace consumed . . . . .                                                  | (93)                         | —                  | (93)           | (92)                         | —                  | (92)           |
| Changes in engineering estimates and other(c) . . . . .                      | (82)                         | 1                  | (81)           | 43                           | 22                 | 65             |
| Balance, end of year . . . . .                                               | <u>4,769</u>                 | <u>282</u>         | <u>5,051</u>   | <u>4,558</u>                 | <u>612</u>         | <u>5,170</u>   |

- (a) Amounts reflected here relate to the combined impacts of (i) new expansions pursued; (ii) increases or decreases in the airspace being pursued for ongoing expansion efforts; (iii) adjustments for differences between the airspace being pursued and airspace granted and (iv) decreases due to decisions to no longer pursue expansion permits.
- (b) We received expansion permits at 12 of our landfills during 2013 and six of our landfills during 2012, demonstrating our continued success in working with municipalities and regulatory agencies to expand the disposal capacity of our existing landfills.
- (c) Changes in engineering estimates can result in changes to the estimated available remaining capacity of a landfill or changes in the utilization of such landfill capacity, affecting the number of tons that can be placed in the future. Estimates of the amount of waste that can be placed in the future are reviewed annually by our engineers and are based on a number of factors, including standard engineering techniques and site-specific factors such as current and projected mix of waste type; initial and projected waste density; estimated number of years of life remaining; depth of underlying waste; anticipated access to moisture through precipitation or recirculation of landfill leachate; and operating practices. We continually focus on improving the utilization of airspace through efforts that include recirculating landfill leachate where allowed by permit; optimizing the placement of daily cover materials; and increasing initial compaction through improved landfill equipment, operations and training.

The tons received at our landfills in 2013 and 2012 are shown below (tons in thousands):

|                                                                        | 2013       |                  |              | 2012       |                  |              |
|------------------------------------------------------------------------|------------|------------------|--------------|------------|------------------|--------------|
|                                                                        | # of Sites | Total Tons       | Tons per Day | # of Sites | Total Tons       | Tons per Day |
| Solid waste landfills . . . . .                                        | 262(a)     | 93,804           | 345          | 264        | 92,393           | 338          |
| Hazardous waste landfills. . . . .                                     | <u>5</u>   | <u>568</u>       | <u>2</u>     | <u>5</u>   | <u>640</u>       | <u>2</u>     |
|                                                                        | 267        | 94,372           | <u>347</u>   | 269        | 93,033           | <u>340</u>   |
| Solid waste landfills closed or divested during related year . . . . . | 5          | <u>390</u>       |              | 1          | <u>189</u>       |              |
|                                                                        |            | <u>94,762(b)</u> |              |            | <u>93,222(b)</u> |              |

- (a) In 2013, we acquired five landfills (two of which were previously operated through lease arrangements), closed four landfills and our contract expired at one landfill.



- (b) These amounts include 1.5 million tons at December 31, 2013 and 1.3 million tons at December 31, 2012, that were received at our landfills but were used for beneficial purposes and generally were redirected from the permitted airspace to other areas of the landfill. Waste types that are frequently identified for beneficial use include green waste for composting and clean dirt for on-site construction projects.

When a landfill we own or operate receives certification of closure from the applicable regulatory agency, we generally transfer the management of the site, including any remediation activities, to our closed sites management group. As of December 31, 2013, our closed sites management group managed 212 closed landfills.

*Landfill Assets* — We capitalize various costs that we incur to prepare a landfill to accept waste. These costs generally include expenditures for land (including the landfill footprint and required landfill buffer property), permitting, excavation, liner material and installation, landfill leachate collection systems, landfill gas collection systems, environmental monitoring equipment for groundwater and landfill gas, directly related engineering, capitalized interest, and on-site road construction and other capital infrastructure costs. The cost basis of our landfill assets also includes estimates of future costs associated with landfill final capping, closure and post-closure activities, which are discussed further below.

The following table reflects the total cost basis of our landfill assets and accumulated landfill airspace amortization as of December 31, 2013 and 2012, and summarizes significant changes in these amounts during 2013 (in millions):

|                                                                | <u>Cost Basis of<br/>Landfill Assets</u> | <u>Accumulated<br/>Landfill Airspace<br/>Amortization</u> | <u>Landfill Assets</u> |
|----------------------------------------------------------------|------------------------------------------|-----------------------------------------------------------|------------------------|
| December 31, 2012 .....                                        | \$13,266                                 | \$(7,188)                                                 | \$6,078                |
| Capital additions .....                                        | 397                                      | —                                                         | 397                    |
| Asset retirement obligations incurred and<br>capitalized ..... | 59                                       | —                                                         | 59                     |
| Acquisitions .....                                             | 88                                       | —                                                         | 88                     |
| Amortization of landfill airspace .....                        | —                                        | (400)                                                     | (400)                  |
| Foreign currency translation .....                             | (96)                                     | 27                                                        | (69)                   |
| Asset retirements and other adjustments .....                  | (298)                                    | 43                                                        | (255)                  |
| December 31, 2013 .....                                        | <u>\$13,416</u>                          | <u>\$(7,518)</u>                                          | <u>\$5,898</u>         |

As of December 31, 2013, we estimate that we will spend approximately \$400 million in 2014, and approximately \$800 million in 2015 and 2016 combined, for the construction and development of our landfill assets. The specific timing of landfill capital spending is dependent on future events, and spending estimates are subject to change due to fluctuations in landfill waste volumes, changes in environmental requirements and other factors impacting landfill operations.

*Landfill and Environmental Remediation Liabilities* — As we accept waste at our landfills, we incur significant asset retirement obligations, which include liabilities associated with landfill final capping, closure and post-closure activities. These liabilities are accounted for in accordance with authoritative guidance associated with accounting for asset retirement obligations and are discussed in Note 3 of our Consolidated Financial Statements. We also have liabilities for the remediation of properties that have incurred environmental damage, which generally was caused by operations or for damage caused by conditions that existed before we acquired operations or a site. We recognize environmental remediation liabilities when we determine that the liability is probable and the estimated cost for the likely remedy can be reasonably estimated.

The following table reflects our landfill liabilities and our environmental remediation liabilities as of December 31, 2013 and 2012, and summarizes significant changes in these amounts during 2013 (in millions):

|                                                            | <u>Landfill</u> | <u>Environmental<br/>Remediation</u> |
|------------------------------------------------------------|-----------------|--------------------------------------|
| December 31, 2012 .....                                    | \$1,338         | \$253                                |
| Obligations incurred and capitalized .....                 | 59              | —                                    |
| Obligations settled .....                                  | (71)            | (20)                                 |
| Interest accretion .....                                   | 87              | 4                                    |
| Revisions in estimates and interest rate assumptions ..... | 6               | (6)                                  |
| Acquisitions, divestitures and other adjustments .....     | <u>2</u>        | <u>(4)</u>                           |
| December 31, 2013 .....                                    | <u>\$1,421</u>  | <u>\$227</u>                         |

*Landfill Costs and Expenses* — As disclosed in the *Operating Expenses* section above, our landfill operating costs include interest accretion on asset retirement obligations, interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets, leachate and methane collection and treatment, landfill remediation costs, and other landfill site costs. The following table summarizes these costs for each of the three years indicated (in millions):

|                                                                                                                           | <u>Years Ended December 31,</u> |              |              |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|--------------|
|                                                                                                                           | <u>2013</u>                     | <u>2012</u>  | <u>2011</u>  |
| Interest accretion on landfill liabilities .....                                                                          | \$ 87                           | \$ 84        | \$ 84        |
| Interest accretion on and discount rate adjustments to environmental<br>remediation liabilities and recovery assets ..... | (9)                             | 6            | 23           |
| Leachate and methane collection and treatment .....                                                                       | 77                              | 67           | 76           |
| Landfill remediation costs .....                                                                                          | 9                               | —            | —            |
| Other landfill site costs .....                                                                                           | <u>68</u>                       | <u>67</u>    | <u>72</u>    |
| Total landfill operating costs .....                                                                                      | <u>\$232</u>                    | <u>\$224</u> | <u>\$255</u> |

The comparison of these costs for the reported periods has been significantly affected by accounting for changes in the risk-free discount rate that we use to estimate the present value of our environmental remediation liabilities and environmental remediation recovery assets, which is based on the rate for U.S. Treasury bonds with a term approximating the weighted-average period until settlement of the underlying obligations.

Amortization of landfill airspace, which is included as a component of “Depreciation and amortization” expense, includes the following:

- the amortization of landfill capital costs, including (i) costs that have been incurred and capitalized and (ii) estimated future costs for landfill development and construction required to develop our landfills to their remaining permitted and expansion airspace; and
- the amortization of asset retirement costs arising from landfill final capping, closure and post-closure obligations, including (i) costs that have been incurred and capitalized and (ii) projected asset retirement costs.

Amortization expense is recorded on a units-of-consumption basis, applying cost as a rate per ton. The rate per ton is calculated by dividing each component of the amortizable basis of a landfill by the number of tons needed to fill the corresponding asset’s airspace. Landfill capital costs and closure and post-closure asset retirement costs are generally incurred to support the operation of the landfill over its entire operating life and are, therefore, amortized on a per-ton basis using a landfill’s total airspace capacity. Final capping asset retirement costs are related to a specific final capping event and are, therefore, amortized on a per-ton basis using each discrete final capping event’s estimated airspace capacity. Accordingly, each landfill has multiple per-ton amortization rates.

The following table presents our landfill airspace amortization expense on a per-ton basis:

|                                                                  | <b>Years Ended December 31,</b> |             |             |
|------------------------------------------------------------------|---------------------------------|-------------|-------------|
|                                                                  | <b>2013</b>                     | <b>2012</b> | <b>2011</b> |
| Amortization of landfill airspace (in millions) . . . . .        | \$ 400                          | \$ 395      | \$ 378      |
| Tons received, net of redirected waste (in millions) . . . . .   | 93                              | 92          | 90          |
| Average landfill airspace amortization expense per ton . . . . . | \$4.29                          | \$4.30      | \$4.19      |

Different per-ton amortization rates are applied at each of our 267 landfills, and per-ton amortization rates vary significantly from one landfill to another due to (i) inconsistencies that often exist in construction costs and provincial, state and local regulatory requirements for landfill development and landfill final capping, closure and post-closure activities and (ii) differences in the cost basis of landfills that we develop versus those that we acquire. Accordingly, our landfill airspace amortization expense measured on a per-ton basis can fluctuate due to changes in the mix of volumes we receive across the Company year-over-year.

### **Liquidity and Capital Resources**

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 cash requirements for: (i) the construction and expansion of our landfills; (ii) additions to and maintenance of our trucking fleet and landfill equipment; (iii) construction, refurbishments and improvements at waste-to-energy and materials recovery facilities; (iv) the container and equipment needs of our operations; (v) final capping, closure and post-closure activities at our landfills; (vi) the repayment of debt and discharging of other obligations and (vii) capital expenditures, acquisitions and investments in support of our strategic growth plans. We also are committed to providing our shareholders with a return on their investment through dividend payments, and we have also returned value to our shareholders through share repurchases.

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

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

|                                                                                              | <b>2013</b>     | <b>2012</b>    |
|----------------------------------------------------------------------------------------------|-----------------|----------------|
| Cash and cash equivalents . . . . .                                                          | <u>\$ 58</u>    | <u>\$ 194</u>  |
| Restricted trust and escrow accounts:                                                        |                 |                |
| Final capping, closure, post-closure and environmental remediation funds . . . .             | \$ 125          | \$ 125         |
| Tax-exempt bond funds . . . . .                                                              | 27              | 1              |
| Other . . . . .                                                                              | <u>15</u>       | <u>12</u>      |
| Total restricted trust and escrow accounts . . . . .                                         | <u>\$ 167</u>   | <u>\$ 138</u>  |
| Debt:                                                                                        |                 |                |
| Current portion . . . . .                                                                    | \$ 726          | \$ 743         |
| Long-term portion . . . . .                                                                  | <u>9,500</u>    | <u>9,173</u>   |
| Total debt . . . . .                                                                         | <u>\$10,226</u> | <u>\$9,916</u> |
| Increase in carrying value of debt due to hedge accounting for interest rate swaps . . . . . | <u>\$ 59</u>    | <u>\$ 79</u>   |

*Cash and cash equivalents* — Cash and cash equivalents consist primarily of cash on deposit and money market funds that invest in U.S. government obligations with original maturities of three months or less. Our cash and cash equivalents have decreased as a result of the execution of our strategic growth plans, primarily due to acquisitions.

*Restricted trust and escrow accounts* — Restricted trust and escrow accounts consist primarily of funds deposited for purposes of settling landfill final capping, closure, post-closure and environmental remediation obligations. These balances are primarily included within long-term “Other assets” in our Consolidated Balance Sheets.

*Debt* — We use long-term borrowings in addition to the cash we generate from operations as part of our overall financial strategy to support and grow our business. We primarily use senior notes and tax-exempt bonds to borrow on a long-term basis, but we also use other instruments and facilities when appropriate. The components of our long-term borrowings as of December 31, 2013 are described in Note 7 to the Consolidated Financial Statements.

Changes in our outstanding debt balances from December 31, 2013 to December 31, 2012 were primarily attributable to (i) net debt borrowings of \$155 million and (ii) the impacts of accounting for other non-cash changes in our debt balances due to tax-exempt bond issuances, hedge accounting for interest rate swaps, foreign currency translation, interest accretion and capital leases and other debt obligations.

As of December 31, 2013, we had (i) \$481 million of debt maturing within the next 12 months, including \$350 million of 5.0% senior notes that mature in March 2014 and \$67 million of tax-exempt bonds; (ii) short-term borrowings and advances outstanding under credit facilities with long-term maturities, including \$420 million of borrowings outstanding under the \$2.25 billion revolving credit facility and \$9 million of advances under our Canadian credit facility and (iii) \$939 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance a portion of this debt on a long-term basis as of December 31, 2013, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$1.1 billion of this debt as long-term and the remaining \$726 million as current obligations.

We have credit facilities in place to support our liquidity and financial assurance needs. The following table summarizes our outstanding letters of credit (in millions) at December 31, categorized by type of facility:

|                                      | <u>2013</u>    | <u>2012</u>    |
|--------------------------------------|----------------|----------------|
| Revolving credit facility(a) .....   | \$ 872         | \$ 933         |
| Letter of credit facilities(b) ..... | 400            | 492            |
| Other(c) .....                       | <u>267</u>     | <u>257</u>     |
|                                      | <u>\$1,539</u> | <u>\$1,682</u> |

- (a) In July 2013, we amended and restated our revolving credit facility, increasing our total credit capacity to \$2.25 billion and extending the term through July 2018. At December 31, 2013, we had \$420 million of outstanding borrowings and \$872 million of letters of credit issued and supported by the facility, leaving an unused and available credit capacity of \$958 million.
- (b) As of December 31, 2013, we had an aggregate committed capacity of \$400 million under letter of credit facilities with terms extending through December 2016. This letter of credit capacity was fully utilized as of December 31, 2013.
- (c) These letters of credit are outstanding under various arrangements that do not obligate the counterparty to provide a committed capacity.

### Summary of Cash Flow Activity

The following is a summary of our cash flows for the years ended December 31 (in millions):

|                                                 | <u>2013</u>      | <u>2012</u>      | <u>2011</u>      |
|-------------------------------------------------|------------------|------------------|------------------|
| Net cash provided by operating activities ..... | <u>\$ 2,455</u>  | <u>\$ 2,295</u>  | <u>\$ 2,469</u>  |
| Net cash used in investing activities .....     | <u>\$(1,900)</u> | <u>\$(1,830)</u> | <u>\$(2,185)</u> |
| Net cash used in financing activities .....     | <u>\$ (687)</u>  | <u>\$ (530)</u>  | <u>\$ (566)</u>  |

*Net Cash Provided by Operating Activities* — The most significant items affecting the comparison of our operating cash flows in 2013 as compared with 2012 are summarized below:

- *Earnings change* — Our 2013 earnings drove our improved net cash provided by operating activities in spite of a year-over-year decrease in income from operations, of \$772 million. Our income from operations decline resulted from higher non-cash charges during 2013 of \$949 million, associated principally with higher impairment charges. Absent these non-cash charges, we experienced higher earnings, which resulted in cash flow expansion.
- *Increased income tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$144 million higher on a year-over-year basis. Note that, while pre-tax income on a year-over-year basis has declined \$809 million, a significant portion of the 2013 impairments discussed above do not qualify for a tax benefit.
- *Forward starting swaps* — During the third quarter of 2012, the forward-starting interest rate swaps associated with anticipated fixed-rate debt issuances were terminated contemporaneously with the actual issuance of senior notes in September 2012, and we paid cash of \$59 million to settle the liabilities related to the swap agreements. This cash payment has been classified as a change in “Other liabilities” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.
- *Termination of interest rate swaps* — In April 2012, we elected to terminate our \$1 billion interest rate swap portfolio associated with senior notes that were scheduled to mature from November 2012 through March 2018. Upon termination of the swaps, we received \$72 million in cash for their fair value. The cash proceeds received from the termination of interest rate swap agreements have been classified as a change in “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was favorably impacted in 2013 by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable, which are affected by both cost changes and timing of payments. Additionally, accruals for our annual incentive plan favorably affected our working capital comparison, driven by both higher incentive plan expense accruals in 2013 compared to 2012 and lower incentive plan payments in 2013 as compared to 2012.

The most significant items affecting the comparison of our operating cash flows in 2012 as compared with 2011 are summarized below:

- *Decrease in earnings* — Our income from operations, excluding depreciation and amortization, decreased by \$109 million, on a year-over-year basis. Included in the \$109 million decrease are the following items:
  - higher charges in 2012 related to impairments and restructuring costs of \$89 million and \$48 million, respectively;
  - lower non-cash charges attributable to equity-based compensation expense and interest accretion and discount rate adjustments on environmental remediation liabilities and recovery assets of \$16 million and \$17 million, respectively; and

- lower bonus expense of approximately \$90 million in 2012 when compared with 2011.
- *Increased income tax payments* — Cash paid for income taxes, net of excess tax benefits associated with equity-based transactions, was approximately \$63 million higher on a year-over-year basis as a result of the decrease in the bonus depreciation allowance from a deduction of 100% of qualifying capital expenditures for property placed in service in 2011 to a deduction of 50% of qualifying capital expenditures for property placed in service in 2012. See *Liquidity Impacts of Income Tax Items* below for additional information.
- *Forward starting swaps* — During the first quarter of 2011 and the third quarter of 2012, the forward-starting interest rate swaps associated with anticipated fixed-rate debt issuances were terminated contemporaneously with the actual issuance of senior notes in February 2011 and September 2012, and we paid cash of \$9 million and \$59 million, respectively, to settle the liabilities related to these swap agreements. These cash payments have been classified as a change in “Accounts payable and accrued liabilities” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.
- *Termination of interest rate swaps* — In April 2012, we elected to terminate our \$1 billion interest rate swap portfolio associated with senior notes that were scheduled to mature from November 2012 through March 2018. Upon termination of the swaps, we received \$72 million in cash for their fair value. The cash proceeds received from the termination of interest rate swap agreements have been classified as a change in “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.
- *Changes in assets and liabilities, net of effects from business acquisitions and divestitures* — Our cash flow from operations was unfavorably impacted in 2012 by changes in our working capital accounts. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable, which are affected by both revenue changes and timing of payments received, and accounts payable changes, which are affected by both cost changes and timing of payments.

*Net Cash Used in Investing Activities* — The most significant items affecting the comparison of our investing cash flows for the periods presented are summarized below:

- *Capital expenditures* — We used \$1,271 million during 2013 for capital expenditures, compared with \$1,510 million in 2012 and \$1,324 million in 2011. The decrease can generally be attributed to increased focus on capital spending management. The increase in capital expenditures in 2012 and 2011 is a result of our increased spending on compressed natural gas vehicles, related fueling infrastructure, and information technology infrastructure and growth initiatives, as well as our taking advantage of the bonus depreciation legislation. The year-over-year comparison of 2013 with 2012 was also affected by timing differences associated with cash payments for the previous years’ fourth quarter capital spending. Approximately \$171 million of our fourth quarter 2012 spending was paid in cash in the first quarter of 2013 compared with approximately \$244 million of our fourth quarter 2011 spending that was paid in the first quarter of 2012.
- *Proceeds from divestitures* — Proceeds from divestitures (net of cash divested) and other sales of assets were \$138 million in 2013, \$44 million in 2012 and \$36 million in 2011. These divestitures were made as part of our initiative to improve or divest certain underperforming and non-strategic operations. In 2013, our proceeds from divestitures included approximately \$41 million related to investments in oil and gas producing properties and \$14 million related to certain of our medical waste service operations and a transfer station in our Greater Mid-Atlantic Area. The remaining amount reported for 2013, as well as the proceeds in 2012 and 2011, generally relate to the sale of fixed assets.
- *Acquisitions* — Our spending on acquisitions was \$724 million in 2013 compared with \$250 million in 2012 and \$867 million in 2011. In 2013, our acquisitions consisted primarily of the recycling operations of Greenstar, for which we paid \$170 million, and substantially all of the assets of RCI, for which we paid \$481 million. The remainder of our 2013 acquisitions related to collection and energy services operations. In 2012, our acquisitions consisted primarily of interests in oil and gas producing properties acquired



through two transactions, for which we paid \$94 million. In 2011, we paid \$432 million, net of cash received of \$4 million and inclusive of certain adjustments, to acquire Oakleaf, which provides outsourced waste and recycling services. See Note 19 to the Consolidated Financial Statements for additional information related to our acquisitions. We continue to focus on accretive acquisitions and growth opportunities that will enhance and expand our existing service offerings.

- *Investments in unconsolidated entities* — We made \$33 million of cash investments in unconsolidated entities during 2013, compared with \$77 million in 2012 and \$155 million in 2011. In 2013, our investments primarily related to waste diversion technology companies and additional capital contributions associated with our investment in a refined coal facility discussed below. In 2012, our investments primarily related to furthering our goal of expanding our service offerings and developing waste diversion technologies. In 2011, our investments included a \$48 million payment made to acquire a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility in North Dakota, and \$107 million of investments primarily related to furthering our goal of growing into new markets by investing in greener technologies.
- *Net receipts from restricted funds* — Net cash received from our restricted trust and escrow accounts, which are largely generated from the issuance of tax-exempt bonds for our capital needs, contributed \$71 million to our investing activities in 2013 compared with \$14 million in 2012 and \$107 million in 2011. The significant decrease in cash received from our restricted trust and escrow accounts during 2012 was due to a decrease in tax-exempt borrowings.
- *Other* — Net cash used by our other investing activities of \$81 million during 2013 and \$51 million during 2012 was primarily associated with the funding of notes receivable associated with Wheelabrator's investments in Europe. Net cash provided by our other investing activities of \$18 million during 2011 was primarily related to the receipt of a payment of \$17 million associated with a note receivable from a prior year divestiture.

*Net Cash Used in Financing Activities* — The most significant items affecting the comparison of our financing cash flows for the periods presented are summarized below:

- *Share repurchases and dividend payments* — For the periods presented, all share repurchases and dividend payments have been approved by our Board of Directors.

We paid an aggregate of \$683 million in cash dividends during 2013, compared with \$658 million in 2012, and \$637 million in 2011. The increase in dividend payments is due to our quarterly per share dividend increasing from \$0.34 in 2011, to \$0.355 in 2012, and to \$0.365 in 2013 and has been offset, in part, by a reduction in our common stock outstanding during 2011 and 2013 as a result of our share repurchase programs.

We paid \$239 million and \$575 million for share repurchases in 2013 and 2011, respectively. We repurchased approximately 5 million shares of our common stock in 2013 and approximately 17 million shares of our common stock in 2011. We did not repurchase any shares during 2012.

In February 2014, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.365 to \$0.375 per share for dividends declared in 2014. However, all future dividend declarations are at the discretion of the Board of Directors, and depend on various factors, including our net earnings, financial condition, cash required for future business plans and other factors the Board of Directors may deem relevant. Additionally, in December 2012, the Board of Directors authorized up to \$500 million in share repurchases, and we repurchased \$239 million of our common stock pursuant to that authorization in 2013. In February 2014, the Board of Directors authorized up to \$600 million in future share repurchases; this authorization both replaces and increases the amount that remained available for share repurchases under the prior authorization. Any future share repurchases will be made at the discretion of management and will depend on factors similar to those considered by the Board of Directors in making dividend declarations.



- *Proceeds from the exercise of common stock options* — The exercise of common stock options and the related excess tax benefits generated a total of \$132 million of financing cash inflows during 2013 compared with \$43 million during 2012 and \$45 million during 2011. The increase in exercised stock options during 2013 is primarily due to the increase in the Company's stock price combined with exercises in advance of stock option expiration dates.
- *Debt borrowings (repayments)* — Net debt borrowings were \$155 million, \$122 million and \$698 million in 2013, 2012 and 2011, respectively. The following summarizes our cash borrowings and debt repayments made during each year (in millions):

|                                             | Years Ended December 31, |                  |                 |
|---------------------------------------------|--------------------------|------------------|-----------------|
|                                             | 2013                     | 2012             | 2011            |
| <i>Borrowings:</i>                          |                          |                  |                 |
| U.S. revolving credit facility(a) . . . . . | \$ 325                   | \$ 400           | \$ 150          |
| Canadian credit facility(a) . . . . .       | 897                      | 189              | 137             |
| Senior notes . . . . .                      | —                        | 495              | 893             |
| Capital leases and other debt . . . . .     | <u>85</u>                | <u>96</u>        | <u>21</u>       |
|                                             | <u>\$ 1,307</u>          | <u>\$ 1,180</u>  | <u>\$ 1,201</u> |
| <i>Repayments:</i>                          |                          |                  |                 |
| U.S. revolving credit facility(a) . . . . . | \$ (305)                 | \$ (150)         | \$ —            |
| Canadian credit facility(a) . . . . .       | (556)                    | (257)            | (214)           |
| Senior notes . . . . .                      | —                        | (400)            | (147)           |
| Tax-exempt bonds . . . . .                  | (162)                    | (129)            | (55)            |
| Capital leases and other debt . . . . .     | <u>(129)</u>             | <u>(122)</u>     | <u>(87)</u>     |
|                                             | <u>\$(1,152)</u>         | <u>\$(1,058)</u> | <u>\$ (503)</u> |
| <i>Net borrowings</i> . . . . .             | <u>\$ 155</u>            | <u>\$ 122</u>    | <u>\$ 698</u>   |

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

For the years ended December 31, 2013 and 2011, non-cash activities included proceeds from tax-exempt borrowings, net of principal payments made directly from trust funds, of \$99 million and \$100 million, respectively. During 2012, we did not have any significant non-cash activities.

- *Other* — Net cash used in other financing activities was \$3 million, \$2 million and \$46 million in 2013, 2012 and 2011, respectively. These activities are primarily attributable to changes in our accrued liabilities for checks written in excess of cash balances due to the timing of cash deposits or payments. During 2013 and 2011, the cash used for these activities included \$4 million and \$7 million, respectively, of financing costs paid to amend and restate our U.S. revolving credit facility.

## Summary of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2013 and the anticipated effect of these obligations on our liquidity in future years (in millions):

|                                                                | <u>2014</u>    | <u>2015</u>  | <u>2016</u>  | <u>2017</u>  | <u>2018</u>  | <u>Thereafter</u> | <u>Total</u>    |
|----------------------------------------------------------------|----------------|--------------|--------------|--------------|--------------|-------------------|-----------------|
| <b>Recorded Obligations:</b>                                   |                |              |              |              |              |                   |                 |
| Expected environmental liabilities:(a)                         |                |              |              |              |              |                   |                 |
| Final capping, closure and post-closure . . . . .              | \$ 95          | \$131        | \$111        | \$107        | \$115        | \$2,110           | \$ 2,669        |
| Environmental remediation . . . . .                            | <u>35</u>      | <u>23</u>    | <u>32</u>    | <u>24</u>    | <u>14</u>    | <u>106</u>        | <u>234</u>      |
|                                                                | 130            | 154          | 143          | 131          | 129          | 2,216             | 2,903           |
| Debt payments(b),(c),(d) . . . . .                             | 916            | 491          | 704          | 731          | 793          | 6,631             | 10,266          |
| <b>Unrecorded Obligations:(e)</b>                              |                |              |              |              |              |                   |                 |
| Non-cancelable operating lease obligations . . . . .           | 100            | 86           | 64           | 55           | 46           | 393               | 744             |
| Estimated unconditional purchase obligations(f) . . .          | <u>76</u>      | <u>44</u>    | <u>25</u>    | <u>17</u>    | <u>9</u>     | <u>231</u>        | <u>402</u>      |
| Anticipated liquidity impact as of December 31, 2013 . . . . . | <u>\$1,222</u> | <u>\$775</u> | <u>\$936</u> | <u>\$934</u> | <u>\$977</u> | <u>\$9,471</u>    | <u>\$14,315</u> |

- (a) Environmental liabilities include final capping, closure, post-closure and environmental remediation costs. The amounts included here reflect environmental liabilities recorded in our Consolidated Balance Sheet as of December 31, 2013 without the impact of discounting and inflation. Our recorded environmental liabilities for final capping, closure and post-closure will increase as we continue to place additional tons within the permitted airspace at our landfills.
- (b) The amounts reported here represent the scheduled principal payments related to our long-term debt, excluding related interest. Refer to Note 7 to the Consolidated Financial Statements for information regarding interest rates.
- (c) Our debt obligations as of December 31, 2013 include \$939 million of tax-exempt bonds subject to repricing within the next 12 months, which is prior to their scheduled maturities. If the re-offerings of the bonds are unsuccessful, then the bonds can be put to us, requiring immediate repayment. We have classified the anticipated cash flows for these contractual obligations based on the scheduled maturity of the borrowing for purposes of this disclosure. For additional information regarding the classification of these borrowings in our Consolidated Balance Sheet as of December 31, 2013, refer to Note 7 to the Consolidated Financial Statements.
- (d) Our recorded debt obligations include non-cash adjustments associated with discounts, premiums and fair value adjustments for interest rate hedging activities. These amounts have been excluded here because they will not result in an impact to our liquidity in future periods.
- (e) Our unrecorded obligations represent operating lease obligations and purchase commitments from which we expect to realize an economic benefit in future periods. We have also made certain guarantees, as discussed in Note 11 to the Consolidated Financial Statements, that we do not expect to materially affect our current or future financial position, results of operations or liquidity.
- (f) Our unconditional purchase obligations are for various contractual obligations that we generally incur in the ordinary course of our business. Certain of our obligations are quantity driven. For contracts that require us to purchase minimum quantities of goods or services, we have estimated our future minimum obligations based on the current market values of the underlying products or services. Accordingly, the amounts reported in the table are not necessarily indicative of our actual cash flow obligations. See Note 11 to the Consolidated Financial Statements for discussion of the nature and terms of our unconditional purchase obligations.

### ***Liquidity Impacts of Income Tax Items***

**Bonus Depreciation** — The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

The acceleration of depreciation deductions related to qualifying capital expenditures in 2013 decreased our 2013 cash taxes by approximately \$70 million. However, taking accelerated depreciation deductions results in increased cash taxes in subsequent periods when the depreciation deductions related to the capital expenditures would have otherwise been taken. Overall, the effect of all applicable years' bonus depreciation programs results in increased cash taxes of \$40 million in 2013. Separately, our tax payments in 2013 were \$145 million higher than the tax payments made in 2012.

**Uncertain Tax Positions** — We have liabilities associated with unrecognized tax benefits and related interest. These liabilities are included as a component of long-term "Other liabilities" in our Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$9 million of liabilities for unrecognized tax benefits, including accrued interest, and \$3 million of related deferred tax assets may be reversed within the next 12 months. The anticipated reversals are related to state tax items, none of which are material, and are expected to result from audit settlements or the expiration of the applicable statute of limitations period.

### **Off-Balance Sheet Arrangements**

We have financial interests in unconsolidated variable interest entities as discussed in Note 20 to the Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 11 to the Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the year ended December 31, 2013, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

### **Inflation**

While inflationary increases in costs, including the cost of diesel fuel, have affected our income from operations margins in recent years, we believe that inflation generally has not had, and in the near future is not expected to have, any material adverse effect on our results of operations. However, as of December 31, 2013, approximately 30% of our collection revenues are generated under long-term agreements with price adjustments based on various indices intended to measure inflation. Additionally, management's estimates associated with inflation have had, and will continue to have, an impact on our accounting for landfill and environmental remediation liabilities.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

In the normal course of business, we are exposed to market risks, including changes in interest rates, Canadian currency rates and certain commodity prices. From time to time, we use derivatives to manage some portion of these risks. Our derivatives are agreements with independent counterparties that provide for payments based on a notional amount. As of December 31, 2013, all of our derivative transactions were related to actual or anticipated economic exposures. We are exposed to credit risk in the event of non-performance by our derivative counterparties. However, we monitor our derivative positions by regularly evaluating our positions and the creditworthiness of the counterparties.

**Interest Rate Exposure** — Our exposure to market risk for changes in interest rates relates primarily to our financing activities, although our interest costs can also be significantly affected by our on-going financial assurance needs, which are discussed in the *Financial Assurance and Insurance Obligations* section of Item 1.

As of December 31, 2013, we had \$10.2 billion of long-term debt when excluding the impacts of accounting for fair value adjustments attributable to interest rate derivatives, discounts and premiums. The effective interest rates of approximately \$2.4 billion of our outstanding debt obligations are subject to change during 2014. The most significant components of our variable-rate debt obligations are (i) \$577 million of tax-exempt bonds that are subject to repricing on either a daily or weekly basis through a remarketing process; (ii) \$939 million of tax-exempt bonds with term interest rate periods that are subject to repricing within 12 months; (iii) \$420 million of borrowings outstanding under our \$2.25 billion revolving credit facility and (iv) \$414 million of outstanding advances under our Canadian credit facility. We currently estimate that a 100 basis point increase in the interest rates of our outstanding variable-rate debt obligations would increase our 2014 interest expense by approximately \$19 million. As of December 31, 2012, the effective interest rates of approximately \$1.5 billion of our outstanding debt obligations were subject to change within 12 months.

Our remaining outstanding debt obligations have fixed interest rates through either the scheduled maturity of the debt or, for certain of our “fixed-rate” tax exempt bonds, through the end of a term interest rate period that exceeds twelve months. In addition, at December 31, 2013, we had forward-starting interest rate swaps with a notional amount of \$175 million. The fair value of our fixed-rate debt obligations and various interest rate derivative instruments can increase or decrease significantly if market interest rates change.

We have performed sensitivity analyses to determine how market rate changes might affect the fair value of our market risk-sensitive derivatives and related positions. These analyses are inherently limited because they reflect a singular, hypothetical set of assumptions. Actual market movements may vary significantly from our assumptions. An instantaneous, one percentage point increase in interest rates across all maturities and applicable yield curves attributable to these instruments would have decreased the fair value of our combined debt and interest rate derivative positions by approximately \$600 million at December 31, 2013.

We are also exposed to interest rate market risk because we have significant cash and cash equivalent balances as well as assets held in restricted trust funds and escrow accounts. These assets are generally invested in high quality, liquid instruments including money market funds that invest in U.S. government obligations with original maturities of three months or less. Because of the short terms to maturity of these investments, we believe that our exposure to changes in fair value due to interest rate fluctuations is insignificant.

*Commodity Price Exposure* — In the normal course of our business, we are subject to operating agreements that expose us to market risks arising from changes in the prices for commodities such as diesel fuel; recyclable materials, including old corrugated cardboard, old newsprint and plastics; and electricity, which generally correlates with natural gas prices in many of the markets in which we operate. With the exception of electricity commodity derivatives, which are discussed below, we generally have not entered into derivatives to hedge the risks associated with changes in the market prices of these commodities during the three years ended December 31, 2013. Alternatively, we attempt to manage these risks through operational strategies that focus on capturing our costs in the prices we charge our customers for the services provided. Accordingly, as the market prices for these commodities increase or decrease, our revenues also increase or decrease.

During 2013, approximately 56% of the electricity revenue at our waste-to-energy facilities was subject to current market rates, and we currently expect that nearly 62% of our electricity revenues at our waste-to-energy facilities will be at market rates by the end of 2014. Our exposure to variability associated with changes in market prices for electricity has increased over the last few years as long-term power purchase agreements have expired. The energy markets have changed significantly since the expiring contracts were executed, and we have found that the current market structure does not support medium- and long-term electricity contracts. As we renegotiate our power-purchase agreements, we expect that a more substantial portion of our energy sales at our waste-to-energy facilities will be based on variable market rates. Accordingly, in recent years, we implemented a more actively managed energy program, which includes a hedging strategy intended to decrease the exposure of our revenues to volatility due to market prices for electricity. Refer to Notes 8 and 14 of the Consolidated Financial Statements for additional information regarding our electricity commodity derivatives.

*Currency Rate Exposure* — We have operations in Canada as well as a cost center in India and investments in China, the United Kingdom and Hong Kong. From time to time, we use currency derivatives to mitigate the impact of currency translation on cash flows of intercompany Canadian-currency denominated debt transactions. Our foreign currency derivatives have not materially affected our financial position or results of operations for the periods presented. In addition, while changes in foreign currency exchange rates could significantly affect the fair value of our foreign currency derivatives, we believe these changes in fair value would not have a material impact to the Company. Refer to Notes 8 and 14 of the Consolidated Financial Statements for additional information regarding our foreign currency derivatives. The foreign currency exposure associated with these investments has not been material.

**Item 8. *Financial Statements and Supplementary Data.***

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## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the Company, including the principal executive and financial officers, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Our internal controls are designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- i. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements, as stated in their report which is included herein.



## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Waste Management, Inc.

We have audited Waste Management, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Waste Management, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Waste Management, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Waste Management, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2013, and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 18, 2014

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Waste Management, Inc.

We have audited the accompanying consolidated balance sheets of Waste Management, Inc. (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Waste Management, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Waste Management, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 18, 2014

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

|                                                                                                                       | <u>December 31,</u> |                 |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|-----------------|
|                                                                                                                       | <u>2013</u>         | <u>2012</u>     |
| <b>ASSETS</b>                                                                                                         |                     |                 |
| Current assets:                                                                                                       |                     |                 |
| Cash and cash equivalents .....                                                                                       | \$ 58               | \$ 194          |
| Accounts receivable, net of allowance for doubtful accounts of \$33 and \$45, respectively .....                      | 1,699               | 1,737           |
| Other receivables .....                                                                                               | 111                 | 102             |
| Investment in unconsolidated entity .....                                                                             | 177                 | —               |
| Parts and supplies .....                                                                                              | 178                 | 174             |
| Deferred income taxes .....                                                                                           | 113                 | 76              |
| Other assets .....                                                                                                    | 163                 | 140             |
| Total current assets .....                                                                                            | 2,499               | 2,423           |
| Property and equipment, net of accumulated depreciation and amortization of \$16,723 and \$16,112, respectively ..... | 12,344              | 12,651          |
| Goodwill .....                                                                                                        | 6,070               | 6,291           |
| Other intangible assets, net .....                                                                                    | 529                 | 397             |
| Investments in unconsolidated entities .....                                                                          | 414                 | 667             |
| Other assets .....                                                                                                    | 747                 | 668             |
| Total assets .....                                                                                                    | <u>\$22,603</u>     | <u>\$23,097</u> |
| <b>LIABILITIES AND EQUITY</b>                                                                                         |                     |                 |
| Current liabilities:                                                                                                  |                     |                 |
| Accounts payable .....                                                                                                | \$ 744              | \$ 842          |
| Accrued liabilities .....                                                                                             | 1,069               | 986             |
| Deferred revenues .....                                                                                               | 475                 | 465             |
| Current portion of long-term debt .....                                                                               | 726                 | 743             |
| Total current liabilities .....                                                                                       | 3,014               | 3,036           |
| Long-term debt, less current portion .....                                                                            | 9,500               | 9,173           |
| Deferred income taxes .....                                                                                           | 1,842               | 1,947           |
| Landfill and environmental remediation liabilities .....                                                              | 1,518               | 1,459           |
| Other liabilities .....                                                                                               | 727                 | 807             |
| Total liabilities .....                                                                                               | 16,601              | 16,422          |
| Commitments and contingencies                                                                                         |                     |                 |
| Equity:                                                                                                               |                     |                 |
| Waste Management, Inc. stockholders' equity:                                                                          |                     |                 |
| Common stock, \$0.01 par value; 1,500,000,000 shares authorized; 630,282,461 shares issued .....                      | 6                   | 6               |
| Additional paid-in capital .....                                                                                      | 4,596               | 4,549           |
| Retained earnings .....                                                                                               | 6,289               | 6,879           |
| Accumulated other comprehensive income .....                                                                          | 154                 | 193             |
| Treasury stock at cost, 165,961,646 and 166,062,235 shares, respectively .....                                        | (5,338)             | (5,273)         |
| Total Waste Management, Inc. stockholders' equity .....                                                               | 5,707               | 6,354           |
| Noncontrolling interests .....                                                                                        | 295                 | 321             |
| Total equity .....                                                                                                    | 6,002               | 6,675           |
| Total liabilities and equity .....                                                                                    | <u>\$22,603</u>     | <u>\$23,097</u> |

See notes to Consolidated Financial Statements.

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

|                                                                                                        | Years Ended December 31, |                |                |
|--------------------------------------------------------------------------------------------------------|--------------------------|----------------|----------------|
|                                                                                                        | 2013                     | 2012           | 2011           |
| Operating revenues:                                                                                    |                          |                |                |
| Service revenues .....                                                                                 | \$12,566                 | \$12,327       | \$11,852       |
| Tangible product revenues .....                                                                        | <u>1,417</u>             | <u>1,322</u>   | <u>1,526</u>   |
| Total operating revenues .....                                                                         | <u>13,983</u>            | <u>13,649</u>  | <u>13,378</u>  |
| Costs and expenses:                                                                                    |                          |                |                |
| Operating costs (exclusive of depreciation and amortization shown below):                              |                          |                |                |
| Cost of services .....                                                                                 | 7,880                    | 7,765          | 7,254          |
| Cost of tangible products .....                                                                        | <u>1,232</u>             | <u>1,114</u>   | <u>1,287</u>   |
| Total operating costs .....                                                                            | 9,112                    | 8,879          | 8,541          |
| Selling, general and administrative .....                                                              | 1,468                    | 1,472          | 1,551          |
| Depreciation and amortization .....                                                                    | 1,333                    | 1,297          | 1,229          |
| Restructuring .....                                                                                    | 18                       | 67             | 19             |
| Goodwill impairments .....                                                                             | 509                      | 4              | 1              |
| (Income) expense from divestitures, asset impairments (other than goodwill)<br>and unusual items ..... | <u>464</u>               | <u>79</u>      | <u>9</u>       |
|                                                                                                        | <u>12,904</u>            | <u>11,798</u>  | <u>11,350</u>  |
| Income from operations .....                                                                           | <u>1,079</u>             | <u>1,851</u>   | <u>2,028</u>   |
| Other income (expense):                                                                                |                          |                |                |
| Interest expense .....                                                                                 | (481)                    | (488)          | (481)          |
| Interest income .....                                                                                  | 4                        | 4              | 8              |
| Equity in net losses of unconsolidated entities .....                                                  | (34)                     | (46)           | (31)           |
| Other, net .....                                                                                       | <u>(74)</u>              | <u>(18)</u>    | <u>(4)</u>     |
|                                                                                                        | <u>(585)</u>             | <u>(548)</u>   | <u>(508)</u>   |
| Income before income taxes .....                                                                       | 494                      | 1,303          | 1,520          |
| Provision for income taxes .....                                                                       | <u>364</u>               | <u>443</u>     | <u>511</u>     |
| Consolidated net income .....                                                                          | 130                      | 860            | 1,009          |
| Less: Net income attributable to noncontrolling interests .....                                        | <u>32</u>                | <u>43</u>      | <u>48</u>      |
| Net income attributable to Waste Management, Inc. ....                                                 | <u>\$ 98</u>             | <u>\$ 817</u>  | <u>\$ 961</u>  |
| Basic earnings per common share .....                                                                  | <u>\$ 0.21</u>           | <u>\$ 1.76</u> | <u>\$ 2.05</u> |
| Diluted earnings per common share .....                                                                | <u>\$ 0.21</u>           | <u>\$ 1.76</u> | <u>\$ 2.04</u> |
| Cash dividends declared per common share .....                                                         | <u>\$ 1.46</u>           | <u>\$ 1.42</u> | <u>\$ 1.36</u> |

See notes to Consolidated Financial Statements.

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

|                                                                                                                                                  | <b>Years Ended December 31,</b> |                    |                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------|--------------------|
|                                                                                                                                                  | <b><u>2013</u></b>              | <b><u>2012</u></b> | <b><u>2011</u></b> |
| Consolidated net income .....                                                                                                                    | \$130                           | \$860              | \$1,009            |
| Other comprehensive income (loss), net of taxes:                                                                                                 |                                 |                    |                    |
| Gains and losses on derivative instruments:                                                                                                      |                                 |                    |                    |
| Unrealized gains (losses), resulting from changes in fair value, net of tax expense<br>(benefit) of \$9, \$(14) and \$(20), respectively .....   | 14                              | (22)               | (30)               |
| Reclassification adjustment for (gains) losses included in net income, net of tax<br>(expense) benefit of \$(1), \$5 and \$1, respectively. .... | <u>(2)</u>                      | <u>10</u>          | <u>1</u>           |
|                                                                                                                                                  | 12                              | (12)               | (29)               |
| Unrealized gains (losses) on available-for-sale securities, net of tax expense<br>(benefit) of \$1, \$2 and \$(2), respectively .....            | 2                               | 2                  | (3)                |
| Foreign currency translation adjustments .....                                                                                                   | (68)                            | 33                 | (18)               |
| Change in funded status of post-retirement benefit obligation, net of tax expense<br>(benefit) of \$10, \$(2) and \$(5), respectively .....      | <u>15</u>                       | <u>(2)</u>         | <u>(8)</u>         |
| Other comprehensive income (loss), net of taxes .....                                                                                            | <u>(39)</u>                     | <u>21</u>          | <u>(58)</u>        |
| Comprehensive income .....                                                                                                                       | 91                              | 881                | 951                |
| Less: Comprehensive income attributable to noncontrolling interests .....                                                                        | <u>32</u>                       | <u>43</u>          | <u>48</u>          |
| Comprehensive income attributable to Waste Management, Inc. ....                                                                                 | <u>\$ 59</u>                    | <u>\$838</u>       | <u>\$ 903</u>      |

See notes to Consolidated Financial Statements.

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

|                                                                                                                   | Years Ended December 31, |                |                |
|-------------------------------------------------------------------------------------------------------------------|--------------------------|----------------|----------------|
|                                                                                                                   | 2013                     | 2012           | 2011           |
| Cash flows from operating activities:                                                                             |                          |                |                |
| Consolidated net income                                                                                           | \$ 130                   | \$ 860         | \$ 1,009       |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities:                    |                          |                |                |
| Depreciation and amortization                                                                                     | 1,333                    | 1,297          | 1,229          |
| Deferred income tax (benefit) provision                                                                           | (149)                    | 67             | 198            |
| Interest accretion on landfill liabilities                                                                        | 87                       | 84             | 84             |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets  | (10)                     | 6              | 23             |
| Provision for bad debts                                                                                           | 39                       | 57             | 44             |
| Equity-based compensation expense                                                                                 | 58                       | 29             | 45             |
| Excess tax benefits associated with equity-based transactions                                                     | (10)                     | (11)           | (8)            |
| Net gain on disposal of assets                                                                                    | (21)                     | (21)           | (24)           |
| Effect of goodwill impairments                                                                                    | 509                      | 4              | 1              |
| Effect of (income) expense from divestitures, asset impairments (other than goodwill) and unusual items and other | 535                      | 95             | 9              |
| Equity in net losses of unconsolidated entities, net of dividends                                                 | 34                       | 46             | 31             |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures:                      |                          |                |                |
| Receivables                                                                                                       | 44                       | (131)          | (110)          |
| Other current assets                                                                                              | (7)                      | (50)           | (23)           |
| Other assets                                                                                                      | 4                        | 105            | 28             |
| Accounts payable and accrued liabilities                                                                          | (27)                     | (57)           | 65             |
| Deferred revenues and other liabilities                                                                           | (94)                     | (85)           | (132)          |
| Net cash provided by operating activities                                                                         | <u>2,455</u>             | <u>2,295</u>   | <u>2,469</u>   |
| Cash flows from investing activities:                                                                             |                          |                |                |
| Acquisitions of businesses, net of cash acquired                                                                  | (724)                    | (250)          | (867)          |
| Capital expenditures                                                                                              | (1,271)                  | (1,510)        | (1,324)        |
| Proceeds from divestitures of businesses (net of cash divested) and other sales of assets                         | 138                      | 44             | 36             |
| Net receipts from restricted trust and escrow accounts                                                            | 71                       | 14             | 107            |
| Investments in unconsolidated entities                                                                            | (33)                     | (77)           | (155)          |
| Other                                                                                                             | (81)                     | (51)           | 18             |
| Net cash used in investing activities                                                                             | <u>(1,900)</u>           | <u>(1,830)</u> | <u>(2,185)</u> |
| Cash flows from financing activities:                                                                             |                          |                |                |
| New borrowings                                                                                                    | 1,307                    | 1,180          | 1,201          |
| Debt repayments                                                                                                   | (1,152)                  | (1,058)        | (503)          |
| Common stock repurchases                                                                                          | (239)                    | —              | (575)          |
| Cash dividends                                                                                                    | (683)                    | (658)          | (637)          |
| Exercise of common stock options                                                                                  | 132                      | 43             | 45             |
| Excess tax benefits associated with equity-based transactions                                                     | 10                       | 11             | 8              |
| Distributions paid to noncontrolling interests                                                                    | (59)                     | (46)           | (59)           |
| Other                                                                                                             | (3)                      | (2)            | (46)           |
| Net cash used in financing activities                                                                             | <u>(687)</u>             | <u>(530)</u>   | <u>(566)</u>   |
| Effect of exchange rate changes on cash and cash equivalents                                                      | <u>(4)</u>               | <u>1</u>       | <u>1</u>       |
| Decrease in cash and cash equivalents                                                                             | (136)                    | (64)           | (281)          |
| Cash and cash equivalents at beginning of year                                                                    | <u>194</u>               | <u>258</u>     | <u>539</u>     |
| Cash and cash equivalents at end of year                                                                          | <u>\$ 58</u>             | <u>\$ 194</u>  | <u>\$ 258</u>  |

See notes to Consolidated Financial Statements.

**WASTE MANAGEMENT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Millions, Except Shares in Thousands)

|                                                                                      | Waste Management, Inc. Stockholders' Equity |                |             |                                  |                      |                                                        |                  |                  |                             |
|--------------------------------------------------------------------------------------|---------------------------------------------|----------------|-------------|----------------------------------|----------------------|--------------------------------------------------------|------------------|------------------|-----------------------------|
|                                                                                      | Total                                       | Common Stock   |             | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury Stock   |                  | Noncontrolling<br>Interests |
|                                                                                      |                                             | Shares         | Amounts     |                                  |                      |                                                        | Shares           | Amounts          |                             |
| Balance, December 31, 2010                                                           | \$6,591                                     | 630,282        | \$ 6        | \$4,528                          | \$6,400              | \$230                                                  | (155,236)        | \$(4,904)        | \$331                       |
| Consolidated net income                                                              | 1,009                                       | —              | —           | —                                | 961                  | —                                                      | —                | —                | 48                          |
| Other comprehensive income (loss), net of taxes                                      | (58)                                        | —              | —           | —                                | —                    | (58)                                                   | —                | —                | —                           |
| Cash dividends declared                                                              | (637)                                       | —              | —           | —                                | (637)                | —                                                      | —                | —                | —                           |
| Equity-based compensation transactions, including dividend equivalents, net of taxes | 119                                         | —              | —           | 33                               | (3)                  | —                                                      | 2,813            | 89               | —                           |
| Common stock repurchases                                                             | (575)                                       | —              | —           | —                                | —                    | —                                                      | (17,338)         | (575)            | —                           |
| Distributions paid to noncontrolling interests                                       | (59)                                        | —              | —           | —                                | —                    | —                                                      | —                | —                | (59)                        |
| Other                                                                                | —                                           | —              | —           | —                                | —                    | —                                                      | 11               | —                | —                           |
| Balance, December 31, 2011                                                           | \$6,390                                     | 630,282        | \$ 6        | \$4,561                          | \$6,721              | \$172                                                  | (169,750)        | \$(5,390)        | \$320                       |
| Consolidated net income                                                              | 860                                         | —              | —           | —                                | 817                  | —                                                      | —                | —                | 43                          |
| Other comprehensive income (loss), net of taxes                                      | 21                                          | —              | —           | —                                | —                    | 21                                                     | —                | —                | —                           |
| Cash dividends declared                                                              | (658)                                       | —              | —           | —                                | (658)                | —                                                      | —                | —                | —                           |
| Equity-based compensation transactions, including dividend equivalents, net of taxes | 101                                         | —              | —           | (15)                             | (1)                  | —                                                      | 3,680            | 117              | —                           |
| Distributions paid to noncontrolling interests                                       | (46)                                        | —              | —           | —                                | —                    | —                                                      | —                | —                | (46)                        |
| Other                                                                                | 7                                           | —              | —           | 3                                | —                    | —                                                      | 8                | —                | 4                           |
| Balance, December 31, 2012                                                           | \$6,675                                     | 630,282        | \$ 6        | \$4,549                          | \$6,879              | \$193                                                  | (166,062)        | \$(5,273)        | \$321                       |
| Consolidated net income                                                              | 130                                         | —              | —           | —                                | 98                   | —                                                      | —                | —                | 32                          |
| Other comprehensive income (loss), net of taxes                                      | (39)                                        | —              | —           | —                                | —                    | (39)                                                   | —                | —                | —                           |
| Cash dividends declared                                                              | (683)                                       | —              | —           | —                                | (683)                | —                                                      | —                | —                | —                           |
| Equity-based compensation transactions, including dividend equivalents, net of taxes | 216                                         | —              | —           | 47                               | (5)                  | —                                                      | 5,461            | 174              | —                           |
| Common stock repurchases                                                             | (239)                                       | —              | —           | —                                | —                    | —                                                      | (5,368)          | (239)            | —                           |
| Distributions paid to noncontrolling interests                                       | (59)                                        | —              | —           | —                                | —                    | —                                                      | —                | —                | (59)                        |
| Other                                                                                | 1                                           | —              | —           | —                                | —                    | —                                                      | 7                | —                | 1                           |
| Balance, December 31, 2013                                                           | <u>\$6,002</u>                              | <u>630,282</u> | <u>\$ 6</u> | <u>\$4,596</u>                   | <u>\$6,289</u>       | <u>\$154</u>                                           | <u>(165,962)</u> | <u>\$(5,338)</u> | <u>\$295</u>                |

See notes to Consolidated Financial Statements.



**WASTE MANAGEMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2013, 2012 and 2011**

**1. Business**

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation; Waste Management's wholly-owned and majority-owned subsidiaries; and certain variable interest entities for which Waste Management or its subsidiaries are the primary beneficiaries as described in Note 20. Waste Management is a holding company and all operations are conducted by its subsidiaries. When the terms "the Company," "we," "us" or "our" are used in this document, those terms refer to Waste Management, Inc., its consolidated subsidiaries and consolidated variable interest entities. When we use the term "WM," we are referring only to Waste Management, Inc., the parent holding company.

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

We evaluate, oversee and manage the financial performance of our Solid Waste business subsidiaries through our 17 geographic Areas. Our Wheelabrator business provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. We also provide additional services that are not managed through our Solid Waste or Wheelabrator businesses, which are presented in this report as "Other." Additional information related to our segments can be found in Note 21.

**2. Accounting Changes and Reclassifications**

***Accounting Changes***

*Comprehensive Income* — In February 2013, the Financial Accounting Standards Board ("FASB") issued amended authoritative guidance associated with comprehensive income, which requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income by component. Additionally, companies are required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendment to authoritative guidance associated with comprehensive income was effective for the Company on January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements. We have presented the information required by this amendment in Note 14.

In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. The amendments to authoritative guidance associated with comprehensive income were effective for the Company on January 1, 2012 and have been applied retrospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

*Indefinite-Lived Intangible Assets Impairment Testing* — In July 2012, the FASB amended authoritative guidance associated with indefinite-lived intangible assets impairment testing. The amended guidance provides companies the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. The amendments are effective for indefinite-lived intangible impairment tests performed for fiscal years beginning after September 15, 2012; however, early adoption was permitted. The Company's early adoption of this guidance in 2012 did not have an impact on our consolidated financial statements. Additional information on impairment testing can be found in Note 3.

*Fair Value Measurement* — In May 2011, the FASB amended authoritative guidance associated with fair value measurements. This amended guidance defines certain requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The amendments to authoritative guidance associated with fair value measurements were effective for the Company on January 1, 2012 and have been applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

*Goodwill Impairment Testing* — In September 2011, the FASB amended authoritative guidance associated with goodwill impairment testing. The amended guidance provides companies the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011; however, early adoption was permitted. The Company's early adoption of this guidance in 2011 did not have an impact on our consolidated financial statements. Additional information on impairment testing can be found in Note 3.

*Multiple-Deliverable Revenue Arrangements* — In October 2009, the FASB amended authoritative guidance associated with multiple-deliverable revenue arrangements. This amended guidance addresses the determination of when individual deliverables within an arrangement are required to be treated as separate units of accounting and modifies the manner in which consideration is allocated across the separately identifiable deliverables. The amendments to authoritative guidance associated with multiple-deliverable revenue arrangements became effective for the Company on January 1, 2011. The new accounting standard has been applied prospectively to arrangements entered into or materially modified after the date of adoption. The adoption of this guidance has not had a material impact on our consolidated financial statements.

#### ***Reclassifications***

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

### **3. Summary of Significant Accounting Policies**

#### ***Principles of Consolidation***

The accompanying Consolidated Financial Statements include the accounts of WM, its wholly-owned and majority-owned subsidiaries and certain variable interest entities for which we have determined that we are the primary beneficiary. All material intercompany balances and transactions have been eliminated. Investments in entities in which we do not have a controlling financial interest are accounted for under either the equity method or cost method of accounting, as appropriate.

#### ***Estimates and Assumptions***

In preparing our financial statements, we make numerous estimates and assumptions that affect the accounting for and recognition and disclosure of assets, liabilities, equity, revenues and expenses. We must make these estimates and assumptions because certain information that we use is dependent on future events, cannot be calculated with precision from available data or simply cannot be calculated. In some cases, these estimates are

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

difficult to determine, and we must exercise significant judgment. In preparing our financial statements, the most difficult, subjective and complex estimates and the assumptions that present the greatest amount of uncertainty relate to our accounting for landfills, environmental remediation liabilities, asset impairments, deferred income taxes and reserves associated with our insured and self-insured claims. Each of these items is discussed in additional detail below. Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist primarily of cash on deposit and money market funds that invest in U.S. government obligations with original maturities of three months or less.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments held within our trust funds and escrow accounts, accounts receivable and derivative instruments. We make efforts to control our exposure to credit risk associated with these instruments by (i) placing our assets and other financial interests with a diverse group of credit-worthy financial institutions; (ii) holding high-quality financial instruments while limiting investments in any one instrument and (iii) maintaining strict policies over credit extension that include credit evaluations, credit limits and monitoring procedures, although generally we do not have collateral requirements for credit extensions. We also control our exposure associated with trade receivables by discontinuing service, to the extent allowable, to non-paying customers. However, our overall credit risk associated with trade receivables is limited due to the large number of diverse customers we service. At December 31, 2013 and 2012, no single customer represented greater than 5% of total accounts receivable.

#### *Trade and Other Receivables*

Our receivables, which are recorded when billed, when services are performed or when cash is advanced, are claims against third parties that will generally be settled in cash. The carrying value of our receivables, net of the allowance for doubtful accounts, represents the estimated net realizable value. We estimate our allowance for doubtful accounts based on historical collection trends; type of customer, such as municipal or commercial; the age of outstanding receivables; and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when our internal collection efforts have been unsuccessful. Also, we recognize interest income on long-term interest-bearing notes receivable as the interest accrues under the terms of the notes. We no longer accrue interest once the notes are deemed uncollectible.

#### *Parts and Supplies*

Parts and supplies consist primarily of spare parts, fuel, tires, lubricants and processed recycling materials. Our parts and supplies are stated at the lower of cost, using the average cost method, or market.

#### *Landfill Accounting*

*Cost Basis of Landfill Assets* — We capitalize various costs that we incur to make a landfill ready to accept waste. These costs generally include expenditures for land (including the landfill footprint and required landfill buffer property); permitting; excavation; liner material and installation; landfill leachate collection systems; landfill gas collection systems; environmental monitoring equipment for groundwater and landfill gas; and directly related engineering, capitalized interest, on-site road construction and other capital infrastructure costs. The cost basis of our landfill assets also includes asset retirement costs, which represent estimates of future costs associated with landfill final capping, closure and post-closure activities. These costs are discussed below.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Final Capping, Closure and Post-Closure Costs* — Following is a description of our asset retirement activities and our related accounting:

- *Final Capping* — Involves the installation of flexible membrane liners and geosynthetic clay liners, drainage 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 related to the specific final capping event with a corresponding increase in the landfill asset. Each final capping event is accounted for as a discrete obligation and recorded as an asset and a liability based on estimates of the discounted cash flows and capacity associated with each final capping event.
- *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 ceases to accept waste, but before the landfill is certified as closed by the applicable state regulatory agency. These costs are recorded as an asset retirement obligation as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset. Closure obligations are recorded over the life of the landfill based on estimates of the discounted cash flows associated with performing closure activities.
- *Post-Closure* — Involves the maintenance and monitoring of a landfill site that has been certified closed by the applicable regulatory agency. Generally, we are required to maintain and monitor landfill sites for a 30-year period. These maintenance and monitoring costs are recorded as an asset retirement obligation as airspace is consumed over the life of the landfill with a corresponding increase in the landfill asset. Post-closure obligations are recorded over the life of the landfill based on estimates of the discounted cash flows associated with performing post-closure activities.

We develop our estimates of these obligations using input from our operations personnel, engineers and accountants. Our estimates are based on our interpretation of current requirements and proposed regulatory changes and are intended to approximate fair value. Absent quoted market prices, the estimate of fair value is based on the best available information, including the results of present value techniques. In many cases, we contract with third parties to fulfill our obligations for final capping, closure and post-closure. We use historical experience, professional engineering judgment and quoted and actual prices paid for similar work to determine the fair value of these obligations. We are required to recognize these obligations at market prices whether we plan to contract with third parties or perform the work ourselves. In those instances where we perform the work with internal resources, the incremental profit margin realized is recognized as a component of operating income when the work is performed.

Once we have determined the final capping, closure and post-closure costs, we inflate those costs to the expected time of payment and discount those expected future costs back to present value. During the years ended December 31, 2013, 2012 and 2011, we inflated these costs in current dollars until the expected time of payment using an inflation rate of 2.5%. We discount these costs to present value using the credit-adjusted, risk-free rate effective at the time an obligation is incurred, consistent with the expected cash flow approach. Any changes in expectations that result in an upward revision to the estimated cash flows are treated as a new liability and discounted at the current rate while downward revisions are discounted at the historical weighted-average rate of the recorded obligation. As a result, the credit-adjusted, risk-free discount rate used to calculate the present value of an obligation is specific to each individual asset retirement obligation. The weighted-average rate applicable to our asset retirement obligations at December 31, 2013 is between 4.25% and 8.0%, the range of the credit-adjusted, risk-free discount rates effective since we adopted the FASB's authoritative guidance related to asset retirement obligations in 2003. We expect to apply a credit-adjusted, risk-free discount rate of 4.75% to liabilities incurred in the first quarter of 2014.

We record the estimated fair value of final capping, closure and post-closure liabilities for our landfills based on the capacity consumed through the current period. The fair value of final capping obligations is developed based on our estimates of the airspace consumed to date for each final capping event and the expected

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

timing of each final capping event. The fair value of closure and post-closure obligations is developed based on our estimates of the airspace consumed to date for the entire landfill and the expected timing of each closure and post-closure activity. Because these obligations are measured at estimated fair value using present value techniques, changes in the estimated cost or timing of future final capping, closure and post-closure activities could result in a material change in these liabilities, related assets and results of operations. We assess the appropriateness of the estimates used to develop our recorded balances annually, or more often if significant facts change.

Changes in inflation rates or the estimated costs, timing or extent of future final capping, closure and post-closure activities typically result in both (i) a current adjustment to the recorded liability and landfill asset and (ii) a change in liability and asset amounts to be recorded prospectively over either the remaining capacity of the related discrete final capping event or the remaining permitted and expansion airspace (as defined below) of the landfill. Any changes related to the capitalized and future cost of the landfill assets are then recognized in accordance with our amortization policy, which would generally result in amortization expense being recognized prospectively over the remaining capacity of the final capping event or the remaining permitted and expansion airspace of the landfill, as appropriate. Changes in such estimates associated with airspace that has been fully utilized result in an adjustment to the recorded liability and landfill assets with an immediate corresponding adjustment to landfill airspace amortization expense.

Interest accretion on final capping, closure and post-closure liabilities is recorded using the effective interest method and is recorded as final capping, closure and post-closure expense, which is included in “Operating” costs and expenses within our Consolidated Statements of Operations.

*Amortization of Landfill Assets* — The amortizable basis of a landfill includes (i) amounts previously expended and capitalized; (ii) capitalized landfill final capping, closure and post-closure costs; (iii) projections of future purchase and development costs required to develop the landfill site to its remaining permitted and expansion capacity and (iv) projected asset retirement costs related to landfill final capping, closure and post-closure activities.

Amortization is recorded on a units-of-consumption basis, applying expense as a rate per ton. The rate per ton is calculated by dividing each component of the amortizable basis of a landfill by the number of tons needed to fill the corresponding asset’s airspace. For landfills that we do not own, but operate through operating or lease arrangements, the rate per ton is calculated based on expected capacity to be utilized over the lesser of the contractual term of the underlying agreement or the life of the landfill.

We apply the following guidelines in determining a landfill’s remaining permitted and expansion airspace:

- *Remaining Permitted Airspace* — Our engineers, in consultation with third-party engineering consultants and surveyors, are responsible for determining remaining permitted airspace at our landfills. The remaining permitted airspace is determined by an annual survey, which is used to compare the existing landfill topography to the expected final landfill topography.
- *Expansion Airspace* — We also include currently unpermitted expansion airspace in our estimate of remaining permitted and expansion airspace in certain circumstances. First, to include airspace associated with an expansion effort, we must generally expect the initial expansion permit application to be submitted within one year and the final expansion permit to be received within five years. Second, we must believe that obtaining the expansion permit is likely, considering the following criteria:
  - Personnel are actively working on the expansion of an existing landfill, including efforts to obtain land use and local, state or provincial approvals;
  - It is likely that the approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
  - We have a legal right to use or obtain land to be included in the expansion plan;



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- There are no significant known technical, legal, community, business, or political restrictions or similar issues that could impair the success of such expansion;
- Financial analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact; and
- Airspace and related costs, including additional closure and post-closure costs, have been estimated based on conceptual design.

For unpermitted airspace to be initially included in our estimate of remaining permitted and expansion airspace, the expansion effort must meet all of the criteria listed above. These criteria are evaluated by our field-based engineers, accountants, managers and others to identify potential obstacles to obtaining the permits. Once the unpermitted airspace is included, our policy provides that airspace may continue to be included in remaining permitted and expansion airspace even if certain of these criteria are no longer met as long as we continue to believe we will ultimately obtain the permit, based on the facts and circumstances of a specific landfill. In these circumstances, continued inclusion must be approved through a landfill-specific review process that includes approval by our Chief Financial Officer and a review by the Audit Committee of our Board of Directors on a quarterly basis. Of the 25 landfill sites with expansions included at December 31, 2013, seven landfills required the Chief Financial Officer to approve the inclusion of the unpermitted airspace. Three of these landfills required approval by our Chief Financial Officer because of community or political opposition that could impede the expansion process. The remaining four landfills required approval due to local zoning restrictions or because the permit application processes do not meet the one- or five-year requirements.

When we include the expansion airspace in our calculations of remaining permitted and expansion airspace, we also include the projected costs for development, as well as the projected asset retirement costs related to final capping, closure and post-closure of the expansion in the amortization basis of the landfill.

Once the remaining permitted and expansion airspace is determined in cubic yards, an airspace utilization factor (“AUF”) is established to calculate the remaining permitted and expansion capacity in tons. The AUF is established using the measured density obtained from previous annual surveys and is then adjusted to account for future settlement. The amount of settlement that is forecasted will take into account several site-specific factors including current and projected mix of waste type, initial and projected waste density, estimated number of years of life remaining, depth of underlying waste, anticipated access to moisture through precipitation or recirculation of landfill leachate, and operating practices. In addition, the initial selection of the AUF is subject to a subsequent multi-level review by our engineering group, and the AUF used is reviewed on a periodic basis and revised as necessary. Our historical experience generally indicates that the impact of settlement at a landfill is greater later in the life of the landfill when the waste placed at the landfill approaches its highest point under the permit requirements.

After determining the costs and remaining permitted and expansion capacity at each of our landfills, we determine the per ton rates that will be expensed as waste is received and deposited at the landfill by dividing the costs by the corresponding number of tons. We calculate per ton amortization rates for each landfill for assets associated with each final capping event, for assets related to closure and post-closure activities and for all other costs capitalized or to be capitalized in the future. These rates per ton are updated annually, or more often, as significant facts change.

It is possible that actual results, including the amount of costs incurred, the timing of final capping, closure and post-closure activities, our airspace utilization or the success of our expansion efforts could ultimately turn out to be significantly different from our estimates and assumptions. To the extent that such estimates, or related assumptions, prove to be significantly different than actual results, lower profitability may be experienced due to higher amortization rates or higher expenses; or higher profitability may result if the opposite occurs. Most significantly, if it is determined that expansion capacity should no longer be considered in calculating the

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recoverability of a landfill asset, we may be required to recognize an asset impairment or incur significantly higher amortization expense. If at any time management makes the decision to abandon the expansion effort, the capitalized costs related to the expansion effort are expensed immediately.

#### *Environmental Remediation Liabilities*

We are subject to an array of laws and regulations relating to the protection of the environment. Under current laws and regulations, we may have liabilities for environmental damage caused by operations, or for damage caused by conditions that existed before we acquired a site. These liabilities include potentially responsible party (“PRP”) investigations, settlements, and certain legal and consultant fees, as well as costs directly associated with site investigation and clean up, such as materials, external contractor costs and incremental internal costs directly related to the remedy. We provide for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. We routinely review and evaluate sites that require remediation and determine our estimated cost for the likely remedy based on a number of estimates and assumptions.

Where it is probable that a liability has been incurred, we estimate costs required to remediate sites based on site-specific facts and circumstances. We routinely review and evaluate sites that require remediation, considering whether we were an owner, operator, transporter, or generator at the site, the amount and type of waste hauled to the site and the number of years we were associated with the site. Next, we review the same type of information with respect to other named and unnamed PRPs. Estimates of the costs for the likely remedy are then either developed using our internal resources or by third-party environmental engineers or other service providers. Internally developed estimates are based on:

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

Estimating our degree of responsibility for remediation is inherently difficult. We recognize and accrue for an estimated remediation liability when we determine that such liability is both probable and reasonably estimable. Determining the method and ultimate cost of remediation requires that a number of assumptions be made. There can sometimes be a range of reasonable estimates of the costs associated with the likely site remediation alternatives identified in the investigation of the extent of environmental impact. In these cases, we use the amount within the range that constitutes our best estimate. If no amount within a range appears to be a better estimate than any other, we use the amount that is the low end of such range. If we used the high ends of such ranges, our aggregate potential liability would be approximately \$190 million higher than the \$227 million recorded in the Consolidated Financial Statements as of December 31, 2013. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

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 (by 2.5% at December 31, 2013 and 2012) 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. We determine the risk-free discount rate and the inflation

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

rate on an annual basis unless interim changes would significantly impact our results of operations. For remedial liabilities that have been discounted, we include interest accretion, based on the effective interest method, in “Operating” costs and expenses in our Consolidated Statements of Operations. The following table summarizes the impacts of revisions in the risk-free discount rate applied to our environmental remediation liabilities and recovery assets during the reported periods (in millions) and the risk-free discount rate applied as of each reporting date:

|                                                                                                        | <b>Years Ended December 31,</b> |             |             |
|--------------------------------------------------------------------------------------------------------|---------------------------------|-------------|-------------|
|                                                                                                        | <b>2013</b>                     | <b>2012</b> | <b>2011</b> |
| Charge (reduction) to Operating expenses . . . . .                                                     | \$ (13)                         | \$ 3        | \$ 17       |
| Risk-free discount rate applied to environmental remediation liabilities and recovery assets . . . . . | 3.00%                           | 1.75%       | 2.00%       |

The portion of our recorded environmental remediation liabilities that has never been subject to inflation or discounting, as the amounts and timing of payments are not readily determinable, was \$36 million at December 31, 2013 and \$32 million at December 31, 2012. Had we not inflated and discounted any portion of our environmental remediation liability, the amount recorded would have increased by \$7 million at December 31, 2013 and decreased by \$11 million at December 31, 2012.

### ***Property and Equipment (exclusive of landfills, discussed above)***

We record property and equipment at cost. Expenditures for major additions and improvements are capitalized and maintenance activities are expensed as incurred. We depreciate property and equipment over the estimated useful life of the asset using the straight-line method. We assume no salvage value for our depreciable property and equipment. When property and equipment are retired, sold or otherwise disposed of, the cost and accumulated depreciation are removed from our accounts and any resulting gain or loss is included in results of operations as an offset or increase to operating expense for the period.

The estimated useful lives for significant property and equipment categories are as follows (in years):

|                                                                             | <b><u>Useful Lives</u></b> |
|-----------------------------------------------------------------------------|----------------------------|
| Vehicles — excluding rail haul cars . . . . .                               | 3 to 10                    |
| Vehicles — rail haul cars . . . . .                                         | 10 to 20                   |
| Machinery and equipment — including containers . . . . .                    | 3 to 30                    |
| Buildings and improvements — excluding waste-to-energy facilities . . . . . | 5 to 40                    |
| Waste-to-energy facilities and related equipment . . . . .                  | up to 50                   |
| Furniture, fixtures and office equipment . . . . .                          | 3 to 10                    |

We include capitalized costs associated with developing or obtaining internal-use software within furniture, fixtures and office equipment. These costs include direct external costs of materials and services used in developing or obtaining the software and internal costs for employees directly associated with the software development project. As of December 31, 2013 and 2012, capitalized costs for software placed in service, net of accumulated depreciation, were \$129 million and \$123 million, respectively. In addition, our furniture, fixtures and office equipment as of December 31, 2013 and 2012 included \$11 million and \$36 million, respectively, for costs incurred for software under development.

### ***Leases***

We lease property and equipment in the ordinary course of our business. Our most significant lease obligations are for property and equipment specific to our industry, including real property operated as a landfill, transfer station or waste-to-energy facility. Our leases have varying terms. Some may include renewal or purchase options, escalation clauses, restrictions, penalties or other obligations that we consider in determining minimum lease payments. The leases are classified as either operating leases or capital leases, as appropriate.



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Operating Leases (excluding landfills discussed below)* — The majority of our leases are operating leases. This classification generally can be attributed to either (i) relatively low fixed minimum lease payments as a result of real property lease obligations that vary based on the volume of waste we receive or process or (ii) minimum lease terms that are much shorter than the assets' economic useful lives. Management expects that in the normal course of business our operating leases will be renewed, replaced by other leases, or replaced with fixed asset expenditures. Our rent expense during each of the last three years and our future minimum operating lease payments for each of the next five years for which we are contractually obligated as of December 31, 2013 are disclosed in Note 11.

*Capital Leases (excluding landfills discussed below)* — Assets under capital leases are capitalized using interest rates determined at the inception of each lease and are amortized over either the useful life of the asset or the lease term, as appropriate, on a straight-line basis. The present value of the related lease payments is recorded as a debt obligation. Our future minimum annual capital lease payments are included in our total future debt obligations as disclosed in Note 7.

*Landfill Leases* — From an operating perspective, landfills that we lease are similar to landfills we own because generally we own the landfill's operating permit and will operate the landfill for the entire lease term, which in many cases is the life of the landfill. As a result, our landfill leases are generally capital leases. The most significant portion of our rental obligations for landfill leases is contingent upon operating factors such as disposal volumes and often there are no contractual minimum rental obligations. Contingent rental obligations are expensed as incurred. For landfill capital leases that provide for minimum contractual rental obligations, we record the present value of the minimum obligation as part of the landfill asset, which is amortized on a units-of-consumption basis over the shorter of the lease term or the life of the landfill.

#### ***Acquisitions***

We generally recognize assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities, based on fair value estimates as of the date of acquisition.

*Contingent Consideration* — In certain acquisitions, we agree to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain negotiated goals, such as targeted revenue levels, targeted disposal volumes or the issuance of permits for expanded landfill airspace. We have recognized liabilities for these contingent obligations based on their estimated fair value at the date of acquisition with any differences between the acquisition-date fair value and the ultimate settlement of the obligations being recognized as an adjustment to income from operations.

*Acquired Assets and Assumed Liabilities* — Assets and liabilities arising from contingencies such as pre-acquisition environmental matters and litigation are recognized at their acquisition-date fair value when their respective fair values can be determined. If the fair values of such contingencies cannot be determined, they are recognized at the acquisition date if the contingencies are probable and an amount can be reasonably estimated.

Acquisition-date fair value estimates are revised as necessary and accounted for as an adjustment to income from operations if, and when, additional information regarding these contingencies becomes available to further define and quantify assets acquired and liabilities assumed. All acquisition-related transaction costs have been expensed as incurred.

#### ***Goodwill and Other Intangible Assets***

Goodwill is the excess of our purchase cost over the fair value of the net assets of acquired businesses. We do not amortize goodwill, but as discussed in the "Asset Impairments" section below, we assess our goodwill for impairment at least annually.

Other intangible assets consist primarily of customer and supplier relationships, covenants not-to-compete, licenses, permits (other than landfill permits, as all landfill-related intangible assets are combined with landfill tangible assets and amortized using our landfill amortization policy), and other contracts. Other intangible assets

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

are recorded at fair value and are generally amortized using either a 150% declining balance approach or a straight-line basis as we determine appropriate. Customer and supplier relationships are typically amortized over a term ranging between 10 and 15 years. Covenants not-to-compete are amortized over the term of the non-compete covenant, which is generally two to five years. Licenses, permits and other contracts are amortized over the definitive terms of the related agreements. If the underlying agreement does not contain definitive terms and the useful life is determined to be indefinite, the asset is not amortized.

#### *Asset Impairments*

We monitor the carrying value of our long-lived assets for potential impairment on a nonrecurring basis and test the recoverability of such assets using significant unobservable (“Level 3”) inputs whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. These events or changes in circumstances, including management decisions pertaining to such assets, are referred to as impairment indicators. If an impairment indicator occurs, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset or asset group to its carrying value. Fair value is generally determined by considering (i) internally developed discounted projected cash flow analysis of the asset or asset group; (ii) actual third-party valuations and/or (iii) information available regarding the current market for similar assets. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs and is included in the “Goodwill impairments” and “(Income) expense from divestitures, asset impairments (other than goodwill) and unusual items” line items in our Consolidated Statement of Operations. Estimating future cash flows requires significant judgment and projections may vary from the cash flows eventually realized, which could impact our ability to accurately assess whether an asset has been impaired.

There are additional considerations for impairments of landfills, goodwill and other indefinite-lived intangible assets, as described below.

*Landfills* — The assessment of impairment indicators and the recoverability of our capitalized costs associated with landfills and related expansion projects require significant judgment due to the unique nature of the waste industry, the highly regulated permitting process and the sensitive estimates involved. During the review of a landfill expansion application, a regulator may initially deny the expansion application although the expansion permit is ultimately granted. In addition, management may periodically divert waste from one landfill to another to conserve remaining permitted landfill airspace, or a landfill may be required to cease accepting waste, prior to receipt of the expansion permit. However, such events occur in the ordinary course of business in the waste industry and do not necessarily result in impairment of our landfill assets because, after consideration of all facts, such events may not affect our belief that we will ultimately obtain the expansion permit. As a result, our tests of recoverability, which generally make use of a probability-weighted cash flow estimation approach, may indicate that no impairment loss should be recorded. At December 31, 2013, one of our landfill sites for which we believe receipt of the expansion permit is probable, is not currently accepting waste. The net recorded capitalized landfill asset cost for this site was \$261 million at December 31, 2013. We performed a test of recoverability for this landfill and the undiscounted cash flows resulting from our probability-weighted estimation approach significantly exceeded the carrying value of this site. During the year ended December 31, 2013, we recognized \$262 million of charges to impair certain of our landfills, primarily as a result of our consideration of management’s decision in the fourth quarter of 2013 not to actively pursue expansion and/or development of such landfills. These charges were primarily associated with two landfills in our Eastern Canada Area, which are no longer accepting waste. We had previously concluded that receipt of permits for these landfills was probable. However, in connection with our asset rationalization and capital allocation analysis, which was influenced, in some cases, by our acquisition of RCI, we determined that the future costs to construct

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

these landfills could be avoided as we are able to allocate disposal that would have gone to these landfills to other facilities and not materially impact operations. As a result of management's decision, we determined that the carrying values of landfill assets were no longer able to be recovered by the undiscounted cash flows attributable to these assets. As such, we wrote their carrying values down to their estimated fair values using a market approach considering the highest and best use of the assets.

Refer to Note 13 for additional information related to landfill asset impairments recognized during the reported periods.

*Goodwill* — At least annually, and more frequently if warranted on a nonrecurring basis, we assess our goodwill for impairment using Level 3 inputs.

We assess whether a goodwill impairment exists using both qualitative and quantitative assessments. Our qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we will not perform a quantitative assessment.

If the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, we perform a quantitative assessment, or two-step impairment test, to determine whether a goodwill impairment exists at the reporting unit. The first step in our quantitative assessment identifies potential impairments by comparing the estimated fair value of the reporting unit to its carrying value, including goodwill. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. Fair value is typically estimated using a combination of the income approach and market approach or only an income approach when applicable. The income approach is based on the long-term projected future cash flows of the reporting units. We discount the estimated cash flows to present value using a weighted-average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting units' expected long-term performance considering the economic and market conditions that generally affect our business. The market approach estimates fair value by measuring the aggregate market value of publicly-traded companies with similar characteristics to our business as a multiple of their reported cash flows. We then apply that multiple to the reporting units' cash flows to estimate their fair values. We believe that this approach is appropriate because it provides a fair value estimate using valuation inputs from entities with operations and economic characteristics comparable to our reporting units.

Fair value computed by these two methods is arrived at using a number of factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them to this analysis. However, we believe that these two methods provide a reasonable approach to estimating the fair value of our reporting units.

Refer to Notes 6 and 13 for additional information related to goodwill impairments recognized during the reported periods.

*Indefinite-Lived Intangible Assets Other Than Goodwill* — At least annually, and more frequently if warranted, we assess indefinite-lived intangible assets other than goodwill for impairment.

When performing the impairment test for indefinite-lived intangible assets, we generally first conduct a qualitative analysis to determine whether we believe it is more likely than not that an asset has been impaired. If we believe an impairment has occurred, we then evaluate for impairment by comparing the estimated fair value of assets to the carrying value. An impairment charge is recognized if the asset's estimated fair value is less than its carrying value.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair value is typically estimated using an income approach. The income approach is based on the long-term projected future cash flows. We discount the estimated cash flows to present value using a weighted-average cost of capital that considers factors such as market assumptions, the timing of the cash flows and the risks inherent in those cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the expected long-term performance considering the economic and market conditions that generally affect our business.

Fair value computed by this method is arrived at using a number of factors, including projected future operating results, economic projections, anticipated future cash flows, comparable marketplace data and the cost of capital. There are inherent uncertainties related to these factors and to our judgment in applying them to this analysis. However, we believe that this method provides a reasonable approach to estimating the fair value of the reporting units.

#### ***Restricted Trust and Escrow Accounts***

As of December 31, 2013, our restricted trust and escrow accounts consist principally of funds deposited for purposes of settling landfill final capping, closure, post-closure and environmental remediation obligations. We often also have restricted trust and escrow account balances related to funds received from the issuance of tax-exempt bonds held in trust for the construction of various projects or facilities. As of December 31, 2013 and 2012, we had \$167 million and \$138 million, respectively, of restricted trust and escrow accounts, which are primarily included in long-term “Other assets” in our Consolidated Balance Sheets.

*Final Capping, Closure, Post-Closure and Environmental Remediation Funds* — At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Balances maintained in these trust funds and escrow accounts will fluctuate based on (i) changes in statutory requirements; (ii) future deposits made to comply with contractual arrangements; (iii) the ongoing use of funds for qualifying final capping, closure, post-closure and environmental remediation activities; (iv) acquisitions or divestitures of landfills and (v) changes in the fair value of the financial instruments held in the trust fund or escrow accounts.

*Tax-Exempt Bond Funds* — We obtain funds from the issuance of industrial revenue bonds for the construction of disposal facilities and for equipment necessary to provide waste management services. Proceeds from these arrangements are directly deposited into trust accounts, and we do not have the ability to use the funds in regular operating activities. Accordingly, these borrowings are treated as non-cash financing activities and are excluded from our Consolidated Statements of Cash Flows. As our construction and equipment expenditures are documented and approved by the applicable bond trustee, the funds are released and we receive a cash reimbursement. These cash reimbursements are reported in the Consolidated Statements of Cash Flows as an investing activity when the cash is released from the trust funds. Generally, the funds are fully expended within one year of the debt issuance. When the debt matures, we generally repay our obligation with cash on hand and the debt repayments are included as a financing activity in the Consolidated Statements of Cash Flows.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Investments in Unconsolidated Entities*

Investments in unconsolidated entities over which the Company has significant influence are accounted for under the equity method of accounting. Investments in entities in which the Company does not have the ability to exert significant influence over the investees' operating and financing activities are accounted for under the cost method of accounting. In addition to equity investments in unconsolidated subsidiaries, we support these ventures through loans and advances. These loans and advances are included as a component of "Other" within the "Net cash provided by investing activities" in our Consolidated Statement of Cash Flows. The following table summarizes our equity and cost method investments as of December 31 (in millions):

|                                              | <u>2013</u>  | <u>2012</u>  |
|----------------------------------------------|--------------|--------------|
| Equity investments(a) .....                  | \$437        | \$443        |
| Cost investments .....                       | <u>154</u>   | <u>224</u>   |
| Investments in unconsolidated entities ..... | <u>\$591</u> | <u>\$667</u> |

- (a) The amount reported in 2013 includes \$177 million attributable to our 2010 investment in Shanghai Environment Group ("SEG"), which is part of our Wheelabrator business. Based on our intent to sell our investment in SEG within the next 12 months, this investment has been classified as a current asset and reflected in "Investment in unconsolidated entity" in our Consolidated Balance Sheet as of December 31, 2013.

We monitor and assess the carrying value of our investments throughout the year for potential impairment and write them down to their fair value when other-than-temporary declines exist. Fair value is generally based on (i) other third-party investors' recent transactions in the securities; (ii) other information available regarding the current market for similar assets and/or (iii) a market or income approach as deemed appropriate.

### *Foreign Currency*

We have operations in Canada as well as a cost center in India and investments in China, the United Kingdom and Hong Kong. Local currencies generally are considered the functional currencies of our operations and investments outside the United States. The assets and liabilities of our foreign operations are translated to U.S. dollars using the exchange rate at the balance sheet date. Revenues and expenses are translated to U.S. dollars using the average exchange rate during the period. The resulting translation difference is reflected as a component of comprehensive income. The foreign currency exposure associated with our investments has not been material.

### *Derivative Financial Instruments*

We primarily use derivative financial instruments to manage our risk associated with fluctuations in interest rates, foreign currency exchange rates and market prices for electricity. We use interest rate swaps to maintain a strategic portion of our long-term debt obligations at variable, market-driven interest rates. In prior years, we entered into interest rate derivatives in anticipation of senior note issuances planned for 2010 through 2014 to effectively lock in a fixed interest rate for those anticipated issuances. Foreign currency exchange rate derivatives are used to hedge our exposure to changes in exchange rates for anticipated intercompany debt transactions, and related interest payments, between Waste Management Holdings, Inc., a wholly-owned subsidiary ("WM Holdings"), and its Canadian subsidiaries. We use electricity commodity derivatives to mitigate the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. The financial statement impacts of our derivatives are discussed in Notes 8 and 14.

We obtain current valuations of our interest rate, foreign currency and electricity commodity hedging instruments from third-party pricing models. The estimated fair values of derivatives used to hedge risks fluctuate over time and should be viewed in relation to the underlying hedged transaction and the overall management of our exposure to fluctuations in the underlying risks. The fair value of derivatives is included in



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

other current assets, other long-term assets, accrued liabilities or other long-term liabilities, as appropriate. Any ineffectiveness present in either fair value or cash flow hedges is recognized immediately in earnings without offset. There was no significant ineffectiveness in 2013, 2012 or 2011.

- *Interest Rate Derivatives* — Our previously outstanding “receive fixed, pay variable” interest rate swaps associated with outstanding fixed-rate senior notes have been designated as fair value hedges for accounting purposes. Accordingly, derivative assets are accounted for as an increase in the carrying value of our underlying debt obligations and derivative liabilities are accounted for as a decrease in the carrying value of our underlying debt instruments. These fair value adjustments are deferred and recognized as an adjustment to interest expense over the remaining term of the hedged instruments. Treasury locks and forward-starting swaps executed in prior years were designated as cash flow hedges for accounting purposes. Unrealized changes in the fair value of these derivative instruments are recorded in “Accumulated other comprehensive income” within the equity section of our Consolidated Balance Sheets. The associated balance in other comprehensive income is reclassified to earnings as the hedged cash flows occur.
- *Foreign Currency Derivatives* — Our foreign currency derivatives have been designated as cash flow hedges for accounting purposes, which results in the unrealized changes in the fair value of the derivative instruments being recorded in “Accumulated other comprehensive income” within the equity section of our Consolidated Balance Sheets. The associated balance in other comprehensive income is reclassified to earnings as the hedged cash flows affect earnings. In each of the periods presented, these derivatives have effectively mitigated the impacts of the hedged transactions, resulting in immaterial impacts to our results of operations for the periods presented.
- *Electricity Commodity Derivatives* — Our “receive fixed, pay variable” electricity commodity swaps have been designated as cash flow hedges for accounting purposes. The effective portion of the electricity commodity swap gains or losses is initially reported as a component of “Accumulated other comprehensive income” within the equity section of our Consolidated Balance Sheets and subsequently reclassified into earnings when the forecasted transactions affect earnings.

#### ***Insured and Self-Insured Claims***

We have retained a significant portion of the risks related to our health and welfare, automobile, general liability and workers’ compensation claims programs. The exposure for unpaid claims and associated expenses, including incurred but not reported losses, generally is estimated with the assistance of external actuaries and by factoring in pending claims and historical trends and data. The gross estimated liability associated with settling unpaid claims is included in “Accrued liabilities” in our Consolidated Balance Sheets if expected to be settled within one year, or otherwise is included in long-term “Other liabilities.” Estimated insurance recoveries related to recorded liabilities are reflected as current “Other receivables” or long-term “Other assets” in our Consolidated Balance Sheets when we believe that the receipt of such amounts is probable.

#### ***Revenue Recognition***

Our revenues are generated from the fees we charge for waste collection, transfer, disposal and recycling and resource recovery services; from the sale of electricity, steam, and landfill gas, which are byproducts of our waste-to-energy and landfill operations; and from the sale of recyclable commodities, oil and gas and organic lawn and garden products. The fees charged for our services are generally defined in our service agreements and vary based on contract-specific terms such as frequency of service, weight, volume and the general market factors influencing a region’s rates. The fees we charge for our services generally include fuel surcharges, which are intended to pass through to customers increased direct and indirect costs incurred because of changes in market prices for fuel. We generally recognize revenue as services are performed or products are delivered. For example, revenue typically is recognized as waste is collected, tons are received at our landfills or transfer stations, recycling commodities are delivered or as kilowatts are delivered to a customer by a waste-to-energy facility or independent power production plant.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Tangible product revenues primarily include the sale of recyclable commodities at our material recovery facilities and through our recycling brokerage services and, to a lesser extent, sales of oil and gas, metals and organic lawn and garden products.

We bill for certain services prior to performance. Such services include, among others, certain residential contracts that are billed on a quarterly basis and equipment rentals. These advance billings are included in deferred revenues and recognized as revenue in the period service is provided.

#### *Capitalized Interest*

We capitalize interest on certain projects under development, including internal-use software and landfill expansion projects, and on certain assets under construction, including operating landfills, landfill gas-to-energy projects and waste-to-energy facilities. During 2013, 2012 and 2011, total interest costs were \$500 million, \$509 million and \$503 million, respectively, of which \$19 million was capitalized in 2013, \$21 million was capitalized in 2012 and \$22 million was capitalized in 2011. In 2013, 2012 and 2011, interest was capitalized primarily for landfill construction costs and landfill gas-to-energy construction projects.

#### *Income Taxes*

The Company is subject to income tax in the United States, Canada, the United Kingdom and Puerto Rico. Current tax obligations associated with our provision for income taxes are reflected in the accompanying Consolidated Balance Sheets as a component of “Accrued liabilities” and the deferred tax obligations are reflected in “Deferred income taxes.”

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax loss and credit carry-forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves for uncertain tax positions when, despite our belief that our tax return positions are fully supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our provision for income taxes.

To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense in our Consolidated Statements of Operations.

#### *Contingent Liabilities*

We estimate the amount of potential exposure we may have with respect to claims, assessments and litigation in accordance with GAAP. We are party to pending or threatened legal proceedings covering a wide range of matters in various jurisdictions. It is difficult to predict the outcome of litigation, as it is subject to many uncertainties. Additionally, it is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such contingencies.

#### *Supplemental Cash Flow Information*

|                                                                                                   | Years Ended December 31, |       |       |
|---------------------------------------------------------------------------------------------------|--------------------------|-------|-------|
|                                                                                                   | 2013                     | 2012  | 2011  |
| Cash paid during the year (in millions):                                                          |                          |       |       |
| Interest, net of capitalized interest and periodic settlements from interest rate swap agreements | \$478                    | \$485 | \$470 |
| Income taxes                                                                                      | 511                      | 366   | 306   |



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the years ended December 31, 2013 and 2011, non-cash activities included proceeds from tax-exempt borrowings, net of principal payments made directly from trust funds, of \$99 million and \$100 million, respectively. During 2012, we did not have any significant non-cash activities. Non-cash investing and financing activities are excluded from the Consolidated Statements of Cash Flows.

### 4. Landfill and Environmental Remediation Liabilities

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

|                                        | December 31, 2013 |                           |                | December 31, 2012 |                           |                |
|----------------------------------------|-------------------|---------------------------|----------------|-------------------|---------------------------|----------------|
|                                        | Landfill          | Environmental Remediation | Total          | Landfill          | Environmental Remediation | Total          |
| Current (in accrued liabilities) ..... | \$ 95             | \$ 35                     | \$ 130         | \$ 104            | \$ 28                     | \$ 132         |
| Long-term .....                        | <u>1,326</u>      | <u>192</u>                | <u>1,518</u>   | <u>1,234</u>      | <u>225</u>                | <u>1,459</u>   |
|                                        | <u>\$1,421</u>    | <u>\$227</u>              | <u>\$1,648</u> | <u>\$1,338</u>    | <u>\$253</u>              | <u>\$1,591</u> |

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

|                                                                  | Landfill       | Environmental Remediation |
|------------------------------------------------------------------|----------------|---------------------------|
| December 31, 2011 .....                                          | \$1,292        | \$273                     |
| Obligations incurred and capitalized .....                       | 58             | —                         |
| Obligations settled .....                                        | (87)           | (30)                      |
| Interest accretion .....                                         | 84             | 4                         |
| Revisions in estimates and interest rate assumptions(a)(b) ..... | (8)            | 5                         |
| Acquisitions, divestitures and other adjustments .....           | <u>(1)</u>     | <u>1</u>                  |
| December 31, 2012 .....                                          | \$1,338        | \$253                     |
| Obligations incurred and capitalized .....                       | 59             | —                         |
| Obligations settled .....                                        | (71)           | (20)                      |
| Interest accretion .....                                         | 87             | 4                         |
| Revisions in estimates and interest rate assumptions(a)(b) ..... | 6              | (6)                       |
| Acquisitions, divestitures and other adjustments .....           | <u>2</u>       | <u>(4)</u>                |
| December 31, 2013 .....                                          | <u>\$1,421</u> | <u>\$227</u>              |

- (a) The amounts reported for our landfill liabilities include reductions of approximately \$15 million and \$20 million for 2012 and 2013, respectively, related to our year-end annual review of landfill final capping, closure and post-closure obligations. The amount reported in 2013 also includes an increase of approximately \$23 million due to the acceleration of the timing of closure and post-closure activities at two of our landfills related to landfill asset impairments, discussed further in Note 13.
- (b) The amount reported in 2012 for our environmental remediation liabilities includes the impact of a decrease in the risk-free discount rate used to measure our liabilities from 2.0% at December 31, 2011 to 1.75% at December 31, 2012, resulting in an increase of \$3 million to our environmental remediation liabilities and a corresponding increase to “Operating” expenses.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The amount reported in 2013 for our environmental remediation liabilities includes the impact of an increase in the risk-free discount rate used to measure our liabilities from 1.75% at December 31, 2012 to 3.0% at December 31, 2013, resulting in a decrease of \$18 million to our environmental remediation liabilities and a corresponding decrease to “Operating” expenses.

Our recorded liabilities as of December 31, 2013 include the impacts of inflating certain of these costs based on our expectations for the timing of cash settlement and of discounting certain of these costs to present value. Anticipated payments of currently identified environmental remediation liabilities as measured in current dollars are \$35 million in 2014, \$23 million in 2015, \$32 million in 2016, \$24 million in 2017, \$14 million in 2018 and \$106 million thereafter.

At several of our landfills, we provide financial assurance by depositing cash into restricted trust funds or escrow accounts for purposes of settling final capping, closure, post-closure and environmental remediation obligations. Generally, these trust funds are established to comply with statutory requirements and operating agreements. See Note 20 for additional information related to these trusts.

### 5. Property and Equipment

Property and equipment at December 31 consisted of the following (in millions):

|                                                                        | 2013            | 2012            |
|------------------------------------------------------------------------|-----------------|-----------------|
| Land .....                                                             | \$ 636          | \$ 657          |
| Landfills .....                                                        | 13,416          | 13,266          |
| Vehicles .....                                                         | 4,115           | 3,954           |
| Machinery and equipment .....                                          | 3,888           | 3,967           |
| Containers .....                                                       | 2,449           | 2,482           |
| Buildings and improvements .....                                       | 3,594           | 3,514           |
| Furniture, fixtures and office equipment .....                         | 969             | 923             |
|                                                                        | 29,067          | 28,763          |
| Less accumulated depreciation on tangible property and equipment ..... | (9,205)         | (8,924)         |
| Less accumulated landfill airspace amortization .....                  | (7,518)         | (7,188)         |
|                                                                        | <u>\$12,344</u> | <u>\$12,651</u> |

Depreciation and amortization expense, including amortization expense for assets recorded as capital leases, was comprised of the following for the years ended December 31 (in millions):

|                                                       | 2013           | 2012           | 2011           |
|-------------------------------------------------------|----------------|----------------|----------------|
| Depreciation of tangible property and equipment ..... | \$ 853         | \$ 833         | \$ 800         |
| Amortization of landfill airspace .....               | 400            | 395            | 378            |
| Depreciation and amortization expense .....           | <u>\$1,253</u> | <u>\$1,228</u> | <u>\$1,178</u> |

### 6. Goodwill and Other Intangible Assets

Goodwill was \$6,070 million as of December 31, 2013 compared with \$6,291 million as of December 31, 2012. The \$221 million decrease in goodwill during 2013 resulted primarily from \$509 million of charges to impair goodwill associated with (i) our Wheelabrator business, which is discussed in more detail below; (ii) our Puerto Rico operations and (iii) an investment in a majority-owned waste diversion technology company. These decreases were partially offset by consideration paid for acquisitions in excess of net assets acquired of \$327 million, primarily related to our acquisitions of RCI and Greenstar, which are discussed in Note 19. See Notes 3, 19 and 21 for additional information related to Goodwill.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As discussed more fully in Note 3, we perform our annual impairment test of our goodwill balances using a measurement date of October 1. We will also perform interim tests if an impairment indicator exists such that the fair value of a reporting unit could potentially be less than its carrying amount.

As a result of our annual fourth quarter impairment tests for our Wheelabrator business during the years ended December 31, 2012 and 2011, we concluded that goodwill was not impaired. In the second quarter of 2012, we believed an impairment indicator existed such that the fair value of our Wheelabrator business could potentially be less than its carrying amount because of the negative effect on our revenues of the continued deterioration of electricity commodity prices, coupled with our continued increased exposure to market prices as a result of the expiration of several long-term, fixed-rate electricity commodity contracts at our waste-to-energy and independent power facilities, and the expiration of several long-term disposal contracts at above-market rates. We performed the interim quantitative assessment using both an income and a market approach in the second quarter of 2012, which indicated that the estimated fair value of our Wheelabrator business exceeded its carrying value. In the fourth quarter of 2012, we again performed our annual impairment test of our goodwill balances, which indicated that the estimated fair value of our Wheelabrator business exceeded its carrying value by approximately 10% compared to an excess of 30% at our annual fourth quarter 2011 test. This quantitative assessment was performed using both an income and market approach.

During 2013, we noted no indicators of impairment that required us to perform an interim impairment test; however, during our annual impairment test of our goodwill balances we determined the fair value of our Wheelabrator business had declined and the associated goodwill was impaired. As a result, we recognized an impairment charge of \$483 million, which had no related tax benefit. We estimated the implied fair value of our Wheelabrator reporting unit goodwill using a combination of income and market approaches. Because the annual impairment test indicated that Wheelabrator's carrying value exceeded its estimated fair value, we performed the "step two" analysis. In the "step two" analysis, the fair values of all assets and liabilities were estimated, including tangible assets, power contracts, customer relationships and trade name for the purpose of deriving an estimate of the implied fair value of goodwill. The implied fair value of goodwill was then compared to the carrying amount of goodwill to determine the amount of the impairment. The factors contributing to the \$483 million goodwill impairment charge principally relate to the continued challenging business environment in areas of the country in which Wheelabrator operates, characterized by lower available disposal volumes (which impact disposal rates and overall disposal revenue, as well as the amount of electricity Wheelabrator is able to generate), lower electricity pricing due to the pricing pressure created by availability of natural gas and increased operating costs as our facilities age. These factors caused us, relative to the 2012 impairment test, to lower assumptions for electricity and disposal revenue, and increase assumed operating costs. Additionally, the discount factor utilized in the income approach increased relative to that utilized in 2012 mainly due to increases in interest rates. If market prices for electricity are lower than our projections, our disposal volumes or rates decline, our costs or capital expenditures exceed our forecasts or our costs of capital increase, the estimated fair value of our Wheelabrator business could further decrease and potentially result in an additional impairment charge in a future period. We will continue to monitor our Wheelabrator business and the recoverability of the remaining \$305 million goodwill balance.

As a result of our annual fourth quarter impairment tests for our Eastern Canada Area during the years ended December 31, 2013, 2012 and 2011, we concluded that goodwill was not impaired. In 2013 and 2012, our annual goodwill impairment tests indicated that the estimated fair value of our Eastern Canada Area exceeded its carrying value by approximately 15% and 5%, respectively. These quantitative assessments were performed using both an income and market approach. If we do not achieve our anticipated disposal volumes, our collection or disposal rates decline, our costs or capital expenditures exceed our forecasts, costs of capital increase, or we do not receive anticipated landfill expansions, the estimated fair value of our Eastern Canada Area could decrease and potentially result in an impairment charge in a future period. We will continue to monitor our Eastern Canada Area.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Also as a result of our annual fourth quarter impairment tests, we incurred (i) \$10 million of charges in 2013 to impair goodwill associated with our Puerto Rico operations and \$4 million to impair goodwill associated with our recycling business and (ii) \$4 million of charges in 2012 to impair goodwill related to certain of our non-Solid Waste operations. We incurred no impairment charges in 2011 as a result of our annual fourth quarter goodwill impairment tests.

Other than as discussed above with respect to our Wheelabrator business, we did not encounter any events or changes in circumstances that indicated that an impairment was more likely than not during interim periods in 2013, 2012 or 2011. Goodwill impairments, in addition to the charges incurred in 2013 and 2012, may be incurred at any time in the future.

Our other intangible assets as of December 31, 2013 and 2012 were comprised of the following (in millions):

|                                     | <u>Customer<br/>and<br/>Supplier<br/>Relationships</u> | <u>Covenants<br/>Not-to-<br/>Compete</u> | <u>Licenses,<br/>Permits<br/>and Other</u> | <u>Total</u>  |
|-------------------------------------|--------------------------------------------------------|------------------------------------------|--------------------------------------------|---------------|
| December 31, 2013:                  |                                                        |                                          |                                            |               |
| Intangible assets .....             | \$ 604                                                 | \$ 87                                    | \$123                                      | \$ 814        |
| Less accumulated amortization ..... | <u>(193)</u>                                           | <u>(57)</u>                              | <u>(35)</u>                                | <u>(285)</u>  |
|                                     | <u>\$ 411</u>                                          | <u>\$ 30</u>                             | <u>\$ 88</u>                               | <u>\$ 529</u> |
| December 31, 2012:                  |                                                        |                                          |                                            |               |
| Intangible assets .....             | \$ 426                                                 | \$ 97                                    | \$127                                      | \$ 650        |
| Less accumulated amortization ..... | <u>(167)</u>                                           | <u>(54)</u>                              | <u>(32)</u>                                | <u>(253)</u>  |
|                                     | <u>\$ 259</u>                                          | <u>\$ 43</u>                             | <u>\$ 95</u>                               | <u>\$ 397</u> |

Amortization expense for other intangible assets was \$80 million for 2013, \$69 million for 2012, and \$51 million for 2011. At December 31, 2013, we had \$19 million of licenses, permits and other intangible assets that are not subject to amortization, because they do not have stated expirations or have routine, administrative renewal processes. Additional information related to other intangible assets acquired through business combinations is included in Note 19. As of December 31, 2013, expected annual amortization expense related to other intangible assets is \$80 million in 2014; \$69 million in 2015; \$62 million in 2016; \$55 million in 2017 and \$50 million in 2018.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### 7. Debt

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

|                                                                                                                                                                                                        | <u>2013</u>     | <u>2012</u>    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|
| U.S. revolving credit facility, maturing July 2018 (weighted average interest rate of 1.2% at December 31, 2013 and 1.4% at December 31, 2012) .....                                                   | \$ 420          | \$ 400         |
| Letter of credit facilities, maturing through December 2016 .....                                                                                                                                      | —               | —              |
| Canadian credit facility and term loan, maturing November 2017 (weighted average effective interest rate of 2.7% at December 31, 2013 and 2.9% at December 31, 2012) .....                             | 414             | 75             |
| Senior notes maturing through 2039, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 5.7% at December 31, 2013 and 2012) .....                                            | 6,287           | 6,305          |
| Tax-exempt bonds maturing through 2045, fixed and variable interest rates ranging from 0.03% to 5.7% (weighted average interest rate of 2.3% at December 31, 2013 and 2.8% at December 31, 2012) ..... | 2,664           | 2,727          |
| Capital leases and other, maturing through 2055, interest rates up to 12% .....                                                                                                                        | <u>441</u>      | <u>409</u>     |
|                                                                                                                                                                                                        | \$10,226        | \$9,916        |
| Current portion of long-term debt .....                                                                                                                                                                | <u>726</u>      | <u>743</u>     |
|                                                                                                                                                                                                        | <u>\$ 9,500</u> | <u>\$9,173</u> |

### *Debt Classification*

As of December 31, 2013, we had (i) \$481 million of debt maturing within the next 12 months, including \$350 million of 5.0% senior notes that mature in March 2014 and \$67 million of tax-exempt bonds; (ii) short-term borrowings and advances outstanding under credit facilities with long-term maturities, including \$420 million of borrowings outstanding under the U.S. revolving credit facility (“\$2.25 billion revolving credit facility”) and \$9 million of advances under our Canadian credit facility and (iii) \$939 million of tax-exempt borrowings subject to repricing within the next 12 months. Based on our intent and ability to refinance a portion of this debt on a long-term basis as of December 31, 2013, including through use of forecasted available capacity under our \$2.25 billion revolving credit facility, we have classified \$1.1 billion of this debt as long-term and the remaining \$726 million as current obligations.

As of December 31, 2013, we also have \$577 million of variable-rate tax-exempt bonds. The interest rates on these bonds are reset on either a daily or weekly basis through a remarketing process. If the remarketing agent is unable to remarket the bonds, the remarketing agent can put the bonds to us. These bonds are supported by letters of credit guaranteeing repayment of the bonds in this event. We classified these borrowings as long-term in our Consolidated Balance Sheet at December 31, 2013 because the borrowings are supported by letters of credit issued under our \$2.25 billion revolving credit facility, which is long-term.

### *Access to and Utilization of Credit Facilities*

**\$2.25 Billion Revolving Credit Facility** — In July 2013, we amended and restated our revolving credit facility, increasing our total credit capacity to \$2.25 billion and extending the term through July 2018. This facility provides us with credit capacity to be used for either cash borrowings or to support letters of credit. The rates we pay for outstanding loans are generally based on LIBOR plus a spread depending on the Company’s debt rating assigned by Moody’s Investors Service and Standard and Poor’s. The spread above LIBOR ranges from 0.90% to 1.475%. At December 31, 2013, we had \$420 million of outstanding borrowings and \$872 million of letters of credit issued and supported by the facility. The unused and available credit capacity of the facility was \$958 million as of December 31, 2013.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Letter of Credit Facilities* — As of December 31, 2013, we had an aggregate committed capacity of \$400 million under letter of credit facilities with terms ending through December 2016. This letter of credit capacity was fully utilized as of December 31, 2013. The financial assurance needs of our business are extensive so we supplement the letter of credit capacity we have through these committed facilities with stand-alone letters of credit with various banking partners.

*Canadian Credit Facility and Term Loan* — Waste Management of Canada Corporation and WM Quebec Inc., wholly-owned subsidiaries of WM, are borrowers under a Canadian credit agreement that provides C\$150 million of revolving credit capacity and C\$500 million of term credit and matures in November 2017. WM and WM Holdings guaranty all subsidiary obligations outstanding under the credit agreement. The rates we pay for outstanding loans under the Canadian credit agreement are generally based on the applicable Canadian Dealer Offered Rate (CDOR) plus a spread depending on the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above CDOR ranges from 1.125% to 2.15%.

In the fourth quarter of 2012, we established the C\$150 million revolving credit capacity to refinance borrowings outstanding under a Canadian term credit agreement that would have matured in November 2012 and to provide additional liquidity for our Canadian operations. We have the ability to issue up to C\$50 million of letters of credit under the Canadian revolving credit facility, which if utilized, reduces the amount of credit capacity available for borrowings. As of December 31, 2013 and 2012, we had no letters of credit outstanding under the facility and outstanding borrowings of C\$10 million and C\$75 million, respectively.

The C\$500 million of term credit was established specifically to fund the acquisition of the assets of RCI Environnement, Inc. and was fully drawn in July 2013. The term credit is non-revolving credit and principal amounts repaid may not be re-borrowed. For additional information related to borrowings and principal repayments under the term credit, see below.

#### ***Debt Borrowings and Repayments***

*\$2.25 Billion Revolving Credit Facility* — During 2013, we incurred net borrowings of \$20 million under our revolving credit facility. The \$420 million of borrowings outstanding as of December 31, 2013 were incurred for general corporate purposes, including additions to working capital, capital expenditures and the funding of acquisitions and investments. We have reported the borrowings and repayments for loans with original maturities of three months or less on a net basis in the Consolidated Statement of Cash Flows.

*Canadian Credit Facility and Term Loan* — In July 2013, we borrowed C\$500 million, or \$476 million, under a term loan to fund our acquisition of the assets of RCI Environnement, Inc., which is discussed further in Note 19. Our outstanding CDOR-based advances, which are generally indexed to one-month CDOR, mature in November 2017, but are prepayable without penalty. Accordingly, this debt has been classified as long-term in our Consolidated Balance Sheet. We repaid C\$70 million, or \$67 million, of the advances under our term loan and C\$65 million, or \$65 million, of net repayments under our Canadian credit facility during the year ended December 31, 2013 with available cash. We have reported the borrowings and repayments for loans with original maturities of three months or less on a net basis in the Consolidated Statement of Cash Flows.

*Senior Notes* — The change in the carrying value of our senior notes from December 31, 2012 to December 31, 2013 is principally due to fair value hedge accounting for interest rate swap contracts. Refer to Notes 8 and 14 for additional information regarding our interest rate derivatives.

*Tax-Exempt Bonds* — During the year ended December 31, 2013, we repaid \$162 million of our tax-exempt bonds with cash. We issued \$100 million of tax-exempt bonds in August 2013. The proceeds from the issuance of the bonds were deposited directly into a trust fund and may only be used for the specific purpose for which the money was raised, which is generally to finance expenditures for landfill and recycling facility construction and development. Accordingly, the restricted funds provided by these financing activities have not been included in "New Borrowings" in our Consolidated Statement of Cash Flows.



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Capital Leases and Other* — The increase in our capital leases and other debt obligations is primarily related to the deferred purchase price of (i) land needed to support a landfill expansion and (ii) Greenstar LLC, which is discussed further in Note 19. This increase was partially offset by net repayments of various borrowings at their scheduled maturities.

*Scheduled Debt Payments* — Principal payments of our debt and capital leases for the next five years, based on their contractual terms, are as follows: \$916 million in 2014; \$491 million in 2015; \$704 million in 2016; \$731 million in 2017; and \$793 million in 2018. Our recorded debt and capital lease obligations include non-cash adjustments associated with discounts, premiums and fair value adjustments for interest rate hedging activities, which have been excluded from these amounts because they will not result in cash payments.

### Secured Debt

Our debt balances are generally unsecured, except for capital leases and the note payable associated with our investment in low-income housing properties.

### Debt Covenants

Our \$2.25 billion revolving credit facility, our Canadian credit facility and term loan and certain other financing agreements contain financial covenants. The following table summarizes the most restrictive requirements of these financial covenants (all terms used to measure these ratios are defined by the facilities):

|                               |             |
|-------------------------------|-------------|
| Interest coverage ratio ..... | > 2.75 to 1 |
| Total debt to EBITDA(a) ..... | < 3.75 to 1 |

- (a) In conjunction with the amendment and restatement of our \$2.25 billion revolving credit facility in July 2013, the maximum ratio was increased from 3.50:1 to 3.75:1 for quarters ending before September 30, 2015. After such time, the covenant ratio will revert back to 3.50:1 for each fiscal quarter through maturity of the facility in July 2018.

Our credit facilities and senior notes also contain certain restrictions intended to monitor our level of subsidiary indebtedness, types of investments and net worth. We monitor our compliance with these restrictions, but do not believe that they significantly impact our ability to enter into investing or financing arrangements typical for our business. As of December 31, 2013 and 2012, we were in compliance with the covenants and restrictions under all of our debt agreements.

## 8. Derivative Instruments and Hedging Activities

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

| Derivatives Designated as Hedging Instruments | Balance Sheet Location        | December 31, |             |
|-----------------------------------------------|-------------------------------|--------------|-------------|
|                                               |                               | 2013         | 2012        |
| Electricity commodity derivatives .....       | Current other assets          | \$—          | \$ 1        |
| Foreign currency derivatives .....            | Long-term other assets        | 2            | —           |
| Total derivative assets .....                 |                               | <u>\$ 2</u>  | <u>\$ 1</u> |
| Electricity commodity derivatives .....       | Current accrued liabilities   | \$ 3         | \$ 5        |
| Interest rate derivatives .....               | Current accrued liabilities   | 28           | —           |
| Foreign currency derivatives .....            | Current accrued liabilities   | —            | 11          |
| Interest rate derivatives .....               | Long-term accrued liabilities | —            | 42          |
| Total derivative liabilities .....            |                               | <u>\$31</u>  | <u>\$58</u> |



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We have not offset fair value amounts recognized for our derivative instruments. For information related to the inputs used to measure our derivative assets and liabilities at fair value, refer to Note 18.

***Fair Value Hedges***

***Interest Rate Swaps***

We have used interest rate swaps to maintain a portion of our debt obligations at variable market interest rates. In April 2012, we elected to terminate our interest rate swaps and, upon termination, we received \$76 million in cash for their fair value plus accrued interest receivable. The terminated interest rate swaps were associated with our senior notes that matured in November 2012 and additional senior notes that are scheduled to mature through 2018. The associated fair value adjustments to long-term debt are being amortized as a reduction to interest expense over the remaining terms of the underlying debt using the effective interest method. The cash proceeds received from our termination of the swaps were classified as a change in “Other assets” within “Net cash provided by operating activities” in the Consolidated Statement of Cash Flows.

We designated our interest rate swaps as fair value hedges of our fixed-rate senior notes. Fair value hedge accounting for interest rate swap contracts increased the carrying value of our debt instruments by \$59 million as of December 31, 2013 and \$79 million as of December 31, 2012.

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

| <u>Derivatives Designated as<br/>Fair Value Hedges</u> | <u>Statement of Operations<br/>Classification</u> | <u>Years Ended December 31,</u> |             |             |                                           |             |             |
|--------------------------------------------------------|---------------------------------------------------|---------------------------------|-------------|-------------|-------------------------------------------|-------------|-------------|
|                                                        |                                                   | <u>Gain (Loss) on<br/>Swap</u>  |             |             | <u>Gain (Loss) on<br/>Fixed-Rate Debt</u> |             |             |
|                                                        |                                                   | <u>2013</u>                     | <u>2012</u> | <u>2011</u> | <u>2013</u>                               | <u>2012</u> | <u>2011</u> |
| Interest rate swaps . . . . .                          | Interest expense                                  | \$—                             | \$(1)       | \$35        | \$—                                       | \$1         | \$(35)      |

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

| <u>Decrease to Interest Expense Due to Hedge Accounting for Interest Rate Swaps</u> | <u>Years Ended December 31,</u> |             |             |
|-------------------------------------------------------------------------------------|---------------------------------|-------------|-------------|
|                                                                                     | <u>2013</u>                     | <u>2012</u> | <u>2011</u> |
| Periodic settlements of active swap agreements(a) . . . . .                         | \$—                             | \$ 8        | \$23        |
| Terminated swap agreements . . . . .                                                | <u>20</u>                       | <u>22</u>   | <u>12</u>   |
|                                                                                     | <u>\$20</u>                     | <u>\$30</u> | <u>\$35</u> |

- (a) These amounts represent the net of our periodic variable-rate interest obligations and the swap counterparties’ fixed-rate interest obligations. Our swaps provided that we received fixed interest rates ranging from 5.00% to 7.125% and paid floating interest rates based on spreads from three-month LIBOR ranging from (0.205)% to 5.53%. These settlements have decreased due to our election to terminate our interest rate swap portfolio with a notional amount of \$1 billion in April 2012.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### *Cash Flow Hedges*

##### *Forward-Starting Interest Rate Swaps*

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

During the third quarter of 2012, \$200 million of these forward-starting interest rate swaps were terminated contemporaneously with the actual issuance of senior notes in September 2012, and we paid cash of \$59 million to settle the liabilities related to these swap agreements. At December 31, 2013 and 2012, our “Accumulated other comprehensive income” included \$34 million and \$39 million, respectively, of after-tax deferred losses related to all previously terminated swaps, which are being amortized as an increase to interest expense over the ten-year life of the related senior note issuances using the effective interest method. As of December 31, 2013, \$7 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months.

The active forward-starting interest rate swaps outstanding as of December 31, 2013 relate to an anticipated debt issuance in the first quarter of 2014. As of December 31, 2013, the fair value of these active interest rate derivatives was comprised of \$28 million of current liabilities compared with \$42 million of long-term liabilities as of December 31, 2012.

##### *Treasury Rate Locks*

At December 31, 2013 and 2012, our “Accumulated other comprehensive income” included \$6 million and \$7 million, respectively, of after-tax deferred losses associated with Treasury rate locks that had been executed in previous years in anticipation of senior note issuances. These deferred losses are reclassified as an increase to interest expense over the life of the related senior note issuances, which extend through 2032. As of December 31, 2013, \$1 million (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months.

##### *Foreign Currency Derivatives*

We use foreign currency derivatives to hedge our exposure to fluctuations in exchange rates for anticipated intercompany cash transactions between WM Holdings and its Canadian subsidiaries.

As of December 31, 2012, the hedged cash flows included C\$370 million of principal and C\$10 million of interest scheduled to be paid on October 31, 2013. The intercompany note and related forward contracts matured and settled on October 31, 2013. The gain realized on the settlement of the forward contracts was \$4 million. Interest on this intercompany note of C\$10 million and C\$11 million was also paid on November 30, 2011 and 2012, respectively. Forward contracts executed to hedge these cash flows settled contemporaneously with the related interest payments. The financial statement impacts of these forward contracts were not material.

In October 2013, we executed a new Canadian dollar intercompany debt arrangement between WM Holdings and its Canadian subsidiaries and elected to swap WM Holding’s non-functional currency intercompany loan receivable back to U.S. dollars, which is WM Holdings’ functional currency. The total notional value of the new cross currency swaps is C\$370 million. The critical terms of the executed swaps match the terms of the intercompany loan. The scheduled principal payments of the loan and the related swaps are as follows: C\$70 million due on October 31, 2016, C\$150 million due on October 31, 2017 and C\$150 million due on October 31, 2018. We designated these cross currency swaps as cash flow hedges. Gains or losses resulting from the remeasurement of the underlying non-functional currency intercompany loan are recognized in current earnings in the same financial statement line item as offsetting gains or losses on the related cross currency swaps.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Electricity Commodity Derivatives*

We use short-term, “receive fixed, pay variable” electricity commodity swaps to reduce the variability in our revenues and cash flows caused by fluctuations in the market prices for electricity. We hedged 1.55 million megawatt hours, or approximately 50%, of Wheelabrator’s 2011 merchant electricity sales; approximately 630,000 megawatt hours, or approximately 20%, of the segment’s 2012 merchant electricity sales and 1.73 million megawatt hours, or approximately 56%, of the segment’s 2013 merchant electricity sales. The swaps executed through December 31, 2013 are expected to hedge approximately 480,000 megawatt hours, or approximately 15%, of Wheelabrator’s 2014 merchant electricity sales.

There was no significant ineffectiveness associated with our cash flow hedges during the years ended December 31, 2013, 2012 or 2011. Refer to Note 14 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

### *Credit-Risk-Related Contingent Features*

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

## 9. Income Taxes

### *Provision for Income Taxes*

Our “Provision for income taxes” consisted of the following (in millions):

|                                  | <b>Years Ended December 31,</b> |                    |                    |
|----------------------------------|---------------------------------|--------------------|--------------------|
|                                  | <b><u>2013</u></b>              | <b><u>2012</u></b> | <b><u>2011</u></b> |
| Current:                         |                                 |                    |                    |
| Federal .....                    | \$ 389                          | \$268              | \$240              |
| State .....                      | 79                              | 72                 | 38                 |
| Foreign .....                    | <u>45</u>                       | <u>36</u>          | <u>35</u>          |
|                                  | <u>513</u>                      | <u>376</u>         | <u>313</u>         |
| Deferred:                        |                                 |                    |                    |
| Federal .....                    | (82)                            | 48                 | 162                |
| State .....                      | (14)                            | 17                 | 36                 |
| Foreign .....                    | <u>(53)</u>                     | <u>2</u>           | <u>—</u>           |
|                                  | <u>(149)</u>                    | <u>67</u>          | <u>198</u>         |
| Provision for income taxes ..... | <u>\$ 364</u>                   | <u>\$443</u>       | <u>\$511</u>       |

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The U.S. federal statutory income tax rate is reconciled to the effective income tax rate as follows:

|                                                                       | <u>Years Ended December 31,</u> |               |               |
|-----------------------------------------------------------------------|---------------------------------|---------------|---------------|
|                                                                       | <u>2013</u>                     | <u>2012</u>   | <u>2011</u>   |
| Income tax expense at U.S. federal statutory rate .....               | 35.00%                          | 35.00%        | 35.00%        |
| Federal tax credits .....                                             | (11.74)                         | (4.13)        | (3.29)        |
| Taxing authority audit settlements and other tax adjustments .....    | (3.47)                          | (0.02)        | (0.47)        |
| Noncontrolling interests .....                                        | (2.28)                          | (1.16)        | (1.11)        |
| State and local income taxes, net of federal income tax benefit ..... | 9.81                            | 3.85          | 3.46          |
| Tax rate differential on foreign income .....                         | 2.11                            | (0.96)        | (0.70)        |
| Tax impact of impairments .....                                       | 41.95                           | 0.57          | —             |
| Other .....                                                           | <u>2.37</u>                     | <u>0.80</u>   | <u>0.72</u>   |
| Provision for income taxes .....                                      | <u>73.75%</u>                   | <u>33.95%</u> | <u>33.61%</u> |

The comparability of our income taxes for the reported periods has been primarily affected by (i) variations in our income before income taxes; (ii) federal tax credits; (iii) tax audit settlements; (iv) the realization of federal and state net operating loss and credit carry-forwards and (v) the tax implications of impairments.

For financial reporting purposes, income (loss) before income taxes showing domestic and foreign sources was as follows (in millions):

|                                  | <u>Years Ended December 31,</u> |                |                |
|----------------------------------|---------------------------------|----------------|----------------|
|                                  | <u>2013</u>                     | <u>2012</u>    | <u>2011</u>    |
| Domestic .....                   | \$548                           | \$1,175        | \$1,394        |
| Foreign .....                    | <u>(54)</u>                     | <u>128</u>     | <u>126</u>     |
| Income before income taxes ..... | <u>\$494</u>                    | <u>\$1,303</u> | <u>\$1,520</u> |

*Investment in Refined Coal Facility* — In January 2011, we acquired a noncontrolling interest in a limited liability company, which was established to invest in and manage a refined coal facility in North Dakota. The facility's refinement processes qualify for federal tax credits that are expected to be realized through 2019 in accordance with Section 45 of the Internal Revenue Code. Our initial consideration for this investment consisted of a cash payment of \$48 million.

We account for our investment in this entity using the equity method of accounting, recognizing our share of the entity's results and other reductions in "Equity in net losses of unconsolidated entities," within our Consolidated Statement of Operations. During the years ended December 31, 2013, 2012 and 2011, we recognized \$8 million, \$7 million and \$6 million, respectively, of net losses resulting from our share of the entity's operating losses. Our tax provision for the years ended December 31, 2013, 2012 and 2011 was reduced by \$20 million, \$21 million and \$17 million, respectively, primarily as a result of tax credits realized from this investment. See Note 20 for additional information related to this investment.

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

We account for our investment in this entity using the equity method of accounting. We recognize our share of the entity's results and reductions in value of our investment in "Equity in net losses of unconsolidated entities," within our Consolidated Statement of Operations. The value of our investment decreases as the tax credits are generated and utilized. During the years ended December 31, 2013, 2012 and 2011, we recognized

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$25 million, \$24 million and \$23 million, respectively, of losses relating to our equity investment in this entity, \$6 million, \$7 million and \$8 million, respectively, of interest expense, and a reduction in our tax provision of \$38 million (including \$26 million of tax credits), in each of the respective years. See Note 20 for additional information related to this investment.

*Tax Audit Settlements* — The Company and its subsidiaries file income tax returns in the United States, Canada, the United Kingdom and Puerto Rico, as well as various state and local jurisdictions. We are currently under audit by the IRS and from time to time we are audited by other taxing authorities. Our audits are in various stages of completion.

During 2013, 2012 and 2011 we settled various tax audits. The settlement of these tax audits resulted in a reduction to our provision for income taxes for the years ended December 31, 2013, 2012 and 2011 of \$11 million, \$10 million and \$12 million, respectively.

We are currently in the examination phase of IRS audits for the tax years 2013 and 2014 and expect these audits to be completed within the next 15 and 27 months, respectively. We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our annual tax return. We are also currently undergoing audits by various state and local jurisdictions for years that date back to 2005, with the exception of affirmative claims in one jurisdiction that date back to 2000. We are not currently under audit in Canada and, due to the expiration of statutes of limitations, all tax years prior to 2009 are closed. In July 2011, we acquired Oakleaf Global Holdings ("Oakleaf"), which is subject to potential IRS examinations for the years 2010 and 2011. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf's pre-acquisition period tax liabilities.

*State Net Operating Loss and Credit Carry-Forwards* — During 2013, 2012 and 2011, we recognized state net operating loss and credit carry-forwards resulting in a reduction to our provision for income taxes of \$16 million, \$5 million and \$4 million, respectively.

*Federal Net Operating Loss Carry-Forwards* — During 2012, we recognized additional federal net operating loss ("NOL") carry-forwards resulting in a reduction to our provision for income taxes of \$8 million. As a result of the acquisition of Oakleaf in 2011, we received income tax attributes (primarily federal and state net operating loss carry-forwards) and allocated a portion of the purchase price to these acquired assets. At the time of the acquisition, we fully recognized all of the income tax attributes identified by the seller and concluded the realization of these attributes did not affect our overall provision for income taxes. In the third quarter of 2012, as a result of new information, we recognized the above referenced tax benefit related to additional federal net operating loss carry-forwards received in the Oakleaf acquisition.

*Tax Implications of Impairments* — During 2013 and 2012, the recording of impairments and the related income tax impacts resulted in permanent differences which increased our provision for income taxes by \$235 million and \$7 million, respectively. See Notes 6 and 13 for more information related to asset impairments and unusual items.

*Unremitted Earnings in Foreign Subsidiaries* — At December 31, 2013, remaining unremitted earnings in foreign operations were approximately \$800 million, which are considered permanently invested and, therefore, no provision for U.S. income taxes has been accrued for these unremitted earnings. Determination of the unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Deferred Tax Assets (Liabilities)***

The components of net deferred tax assets (liabilities) are as follows (in millions):

|                                                                          | <u>December 31,</u>      |                          |
|--------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                          | <u>2013</u>              | <u>2012</u>              |
| Deferred tax assets:                                                     |                          |                          |
| Net operating loss, capital loss and tax credit carry-forwards . . . . . | \$ 164                   | \$ 189                   |
| Miscellaneous and other reserves, net . . . . .                          | <u>356</u>               | <u>301</u>               |
| Subtotal . . . . .                                                       | 520                      | 490                      |
| Valuation allowance . . . . .                                            | (149)                    | (120)                    |
| Deferred tax liabilities:                                                |                          |                          |
| Landfill and environmental remediation liabilities . . . . .             | (30)                     | (11)                     |
| Property and equipment . . . . .                                         | (966)                    | (1,180)                  |
| Goodwill and other intangibles . . . . .                                 | <u>(1,104)</u>           | <u>(1,050)</u>           |
| Net deferred tax liabilities . . . . .                                   | <u><u>\$ (1,729)</u></u> | <u><u>\$ (1,871)</u></u> |

The valuation allowance increased by \$29 million in 2013 due to changes in our capital loss carry-forwards and in our state NOL and tax credit carry-forwards, as well as the tax impacts of impairments.

At December 31, 2013, we had \$59 million of federal NOL carry-forwards and \$1.6 billion of state NOL carry-forwards. The federal and state NOL carry-forwards have expiration dates through the year 2033. We also have \$101 million of federal capital loss carry-forwards, of which \$98 million expire in 2014 and \$3 million expire in 2018. In addition, we have \$38 million of state tax credit carry-forwards at December 31, 2013.

We have established valuation allowances for uncertainties in realizing the benefit of certain tax loss and credit carry-forwards and other deferred tax assets. While we expect to realize the deferred tax assets, net of the valuation allowances, changes in estimates of future taxable income or in tax laws may alter this expectation.

***Liabilities for Uncertain Tax Positions***

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, including accrued interest for 2013, 2012 and 2011 is as follows (in millions):

|                                                                        | <u>2013</u>        | <u>2012</u>        | <u>2011</u>         |
|------------------------------------------------------------------------|--------------------|--------------------|---------------------|
| Balance at January 1 . . . . .                                         | \$54               | \$49               | \$ 53               |
| Additions based on tax positions related to the current year . . . . . | 6                  | 15                 | 9                   |
| Additions based on tax positions of prior years . . . . .              | —                  | —                  | —                   |
| Additions due to acquisitions . . . . .                                | —                  | —                  | 2                   |
| Accrued interest . . . . .                                             | 2                  | 2                  | 2                   |
| Reductions for tax positions of prior years . . . . .                  | (7)                | (1)                | —                   |
| Settlements . . . . .                                                  | (1)                | (4)                | (10)                |
| Lapse of statute of limitations . . . . .                              | <u>(5)</u>         | <u>(7)</u>         | <u>(7)</u>          |
| Balance at December 31 . . . . .                                       | <u><u>\$49</u></u> | <u><u>\$54</u></u> | <u><u>\$ 49</u></u> |

These liabilities are included as a component of long-term “Other liabilities” in our Consolidated Balance Sheets because the Company does not anticipate that settlement of the liabilities will require payment of cash within the next 12 months. As of December 31, 2013, \$32 million of net unrecognized tax benefits, if recognized in future periods, would impact our effective tax rate.



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We recognize interest expense related to unrecognized tax benefits in income tax expense. During each of the years ended December 31, 2013, 2012 and 2011, we recognized approximately \$2 million of such interest expense as a component of our provisions for income taxes. We had approximately \$7 million of accrued interest in our Consolidated Balance Sheets as of December 31, 2013 and 2012. We do not have any accrued liabilities or expense for penalties related to unrecognized tax benefits for the years ended December 31, 2013, 2012 and 2011.

We are not able to reasonably estimate when we would make any cash payments required to settle these liabilities, but we do not believe that the ultimate settlement of our obligations will materially affect our liquidity. We anticipate that approximately \$9 million of liabilities for unrecognized tax benefits, including accrued interest, and \$3 million of related deferred tax assets may be reversed within the next 12 months. The anticipated reversals are primarily related to state tax items, none of which are material, and are expected to result from audit settlements or the expiration of the applicable statute of limitations period.

#### ***Bonus Depreciation***

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013 and included an extension for one year of the bonus depreciation allowance. As a result, 50% of qualifying capital expenditures on property placed in service before January 1, 2014 were depreciated immediately. The acceleration of deductions on 2013 qualifying capital expenditures resulting from the bonus depreciation provisions had no impact on our effective income tax rate for 2013 although it reduced our cash taxes.

#### **10. Employee Benefit Plans**

*Defined Contribution Plans* — Waste Management sponsors 401(k) retirement savings plans that cover employees, except those working subject to collective bargaining agreements that do not allow for coverage under such plans. United States employees who are not subject to collective bargaining agreements are generally eligible to participate in the plans following a 90-day waiting period after hire and may contribute as much as 25% of their annual compensation, subject to annual contribution limitations established by the IRS. Under our largest retirement savings plan, we match, in cash, 100% of employee contributions on the first 3% of their eligible compensation and 50% of employee contributions on the next 3% of their eligible compensation, resulting in a maximum match of 4.5% of eligible compensation. Both employee and Company contributions vest immediately. Certain United States employees who are subject to collective bargaining agreements may participate in a separate Company sponsored 401(k) retirement savings plan under terms specified in their collective bargaining agreement. Certain employees outside the United States including those in Canada, the United Kingdom and Puerto Rico, participate in defined contribution plans maintained by the Company in compliance with laws of the appropriate jurisdiction. Charges to “Operating” and “Selling, general and administrative” expenses for our defined contribution plans were \$63 million in 2013, \$63 million in 2012 and \$61 million in 2011.

*Defined Benefit Plans (other than multiemployer defined benefit plans discussed below)* — Waste Management Holdings, Inc. sponsors a defined benefit plan for certain employees who are subject to collective bargaining agreements that provide for participation in that plan. Further, qualifying Canadian employees participate in defined benefit plans sponsored by certain of our Canadian subsidiaries. In addition, Wheelabrator Technologies Inc., a wholly-owned subsidiary, sponsors a nonqualified pension plan for a retired board member. As of December 31, 2013, the combined benefit obligation of these pension plans was \$97 million, and the plans had \$86 million of plan assets, resulting in an unfunded benefit obligation for these plans of \$11 million.

In addition, WM Holdings and certain of its subsidiaries provided post-retirement health care and other benefits to eligible retirees. In conjunction with our acquisition of WM Holdings in July 1998, we limited participation in these plans to participating retirees as of December 31, 1998. The unfunded benefit obligation for these plans was \$33 million at December 31, 2013.



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our accrued benefit liabilities for our defined benefit pension and other post-retirement plans are \$44 million as of December 31, 2013 and are included as components of “Accrued liabilities” and long-term “Other liabilities” in our Consolidated Balance Sheet.

**Multiemployer Defined Benefit Pension Plans** — We are a participating employer in a number of trustee-managed multiemployer, defined benefit pension plans for employees who are covered by collective bargaining agreements. The risks of participating in these multiemployer plans are different from single-employer plans in that (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees or former employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be assumed by the remaining participating employers and (iii) if we choose to stop participating in any of our multiemployer plans, we may be required to pay those plans a withdrawal amount based on the underfunded status of the plan. The following table outlines our participation in multiemployer plans considered to be individually significant (dollar amounts in millions):

| Pension Fund                                                          | EIN/Pension Plan Number              | Pension Protection Act Reported Status(a) |                            | FIP/RP Status(b),(c) | Company Contributions(d) |      |      | Expiration Date of Collective Bargaining Agreement(s) |
|-----------------------------------------------------------------------|--------------------------------------|-------------------------------------------|----------------------------|----------------------|--------------------------|------|------|-------------------------------------------------------|
|                                                                       |                                      | 2013                                      | 2012                       |                      | 2013                     | 2012 | 2011 |                                                       |
| Automotive Industries Pension Plan                                    | EIN: 94-1133245;<br>Plan Number: 001 | Critical                                  | Critical                   | Implemented          | \$ 1                     | \$ 1 | \$ 1 | Various dates through 6/30/2018                       |
| Central States, Southeast and Southwest Areas Pension Plan            | EIN: 36-6044243;<br>Plan Number: 001 | Critical                                  | Critical                   | Implemented          | —                        | —    | —    | (e)                                                   |
| Local 731 Private Scavengers and Garage Attendants Pension Trust Fund | EIN: 36-6513567;<br>Plan Number: 001 | Endangered as of 9/30/2012                | Endangered as of 9/30/2011 | Implemented          | 6                        | 5    | 4    | 9/30/2014 and 9/30/2018                               |
| Suburban Teamsters of Northern Illinois Pension Plan                  | EIN: 36-6155778;<br>Plan Number: 001 | Critical                                  | Critical                   | Implemented          | 2                        | 2    | 2    | Various dates through 3/31/2015                       |
| Teamsters Employers Local 945 Pension Fund                            | EIN: 22-6196388;<br>Plan Number: 001 | Critical                                  | Critical                   | Implemented          | —                        | —    | —    | Various dates through 12/31/2015                      |
| Teamsters Local 301 Pension Plan                                      | EIN: 36-6492992;<br>Plan Number: 001 | Not Endangered or Critical                | Not Endangered or Critical | Not Applicable       | 1                        | 1    | 1    | 9/30/2018                                             |
| Western Conference of Teamsters Pension Plan                          | EIN: 91-6145047;<br>Plan Number: 001 | Not Endangered or Critical                | Not Endangered or Critical | Not Applicable       | 22                       | 22   | 20   | Various dates through 5/31/2018                       |
| Western Pennsylvania Teamsters and Employers Pension Plan             | EIN: 25-6029946;<br>Plan Number: 001 | Critical                                  | Critical                   | Implemented          | 1                        | 1    | 1    | 12/31/2016                                            |
|                                                                       |                                      |                                           |                            |                      | —                        | —    | —    |                                                       |
|                                                                       |                                      |                                           |                            |                      | \$33                     | \$32 | \$29 |                                                       |
| Contributions to other multiemployer pension plans                    |                                      |                                           |                            |                      | 7                        | 7    | 7    |                                                       |
| Total contributions to multiemployer pension plans                    |                                      |                                           |                            |                      | \$40                     | \$39 | \$36 |                                                       |

- (a) Unless otherwise noted in the table, the most recent Pension Protection Act zone status available in 2013 and 2012 is for the plan’s year-end at December 31, 2012 and 2011, respectively. The zone status is based on information that we received from the plan and is certified by the plan’s actuary. As defined in the Pension Protection Act of 2006, among other factors, plans reported as critical are generally less than 65% funded and plans reported as endangered are generally less than 80% funded.
- (b) The “FIP/RP Status” column indicates plans for which a Funding Improvement Plan (“FIP”) or a Rehabilitation Plan (“RP”) is either pending or has been implemented.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (c) A multiemployer defined benefit pension plan that has been certified as endangered, seriously endangered or critical may begin to levy a statutory surcharge on contribution rates. Once authorized, the surcharge is at the rate of 5% for the first 12 months and 10% for any periods thereafter. Contributing employers, however, may eliminate the surcharge by entering into a collective bargaining agreement that meets the requirements of the applicable FIP or RP.
- (d) The Company was listed in the Form 5500 of the multiemployer plans considered to be individually significant as providing more than 5% of the total contributions for each of the following plans and plan years:

|                                                                             | <b>Year Contributions to Plan<br/>Exceeded 5% of Total Contributions<br/>(as of Plan's Year End)</b> |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Local 731 Private Scavengers and Garage Attendants Pension Trust Fund ..... | 9/30/2012 and 9/30/2011                                                                              |
| Suburban Teamsters of Northern Illinois Pension Plan .....                  | 12/31/2012 and 12/31/2011                                                                            |
| Teamsters Local 301 Pension Plan .....                                      | 12/31/2012 and 12/31/2011                                                                            |

At the date the financial statements were issued, Forms 5500 were not available for the plan years ended in 2013.

- (e) The Company believes there are no collective bargaining agreements remaining that require continuing contributions to this plan; however, this point is the subject of pending litigation with the trustees for the Central States, Southeast and Southwest Areas Pension Plan.

Our portion of the projected benefit obligation, plan assets and unfunded liability of the multiemployer pension plans is not material to our financial position. However, the failure of participating employers to remain solvent could affect our portion of the plans' unfunded liability. Specific benefit levels provided by union pension plans are not negotiated with or known by the employer contributors.

In connection with our ongoing renegotiations of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. Further, business events, such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations, which result in the decline of Company contributions to a multiemployer pension plan could trigger a partial or complete withdrawal. In the event of a withdrawal, we may incur expenses associated with our obligations for unfunded vested benefits at the time of the withdrawal. In 2013 and 2012, we recognized aggregate charges of \$5 million and \$10 million, respectively, to "Operating" expenses for the withdrawal of certain bargaining units from multiemployer pension plans. We did not have similar charges in 2011. Refer to Note 11 for additional information related to our obligations to multiemployer plans for which we have withdrawn or partially withdrawn.

### 11. Commitments and Contingencies

*Financial Instruments* — We have obtained letters of credit, surety bonds and insurance policies and have established trust funds and issued financial guarantees to support tax-exempt bonds, contracts, performance of landfill final capping, closure and post-closure requirements, environmental remediation and other obligations. Letters of credit generally are supported by our \$2.25 billion revolving credit facility and other credit facilities established for that purpose. These facilities are discussed further in Note 7. Surety bonds and insurance policies are supported by (i) a diverse group of third-party surety and insurance companies; (ii) an entity in which we have a noncontrolling financial interest or (iii) wholly-owned insurance companies, the sole business of which is to issue surety bonds and/or insurance policies on our behalf.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

We have retained a significant portion of the risks related to our automobile, general liability and workers' compensation claims programs. "General liability" refers to the self-insured portion of specific third party claims made against us that may be covered under our commercial General Liability Insurance Policy. For our self-insured retentions, the exposure for unpaid claims and associated expenses, including incurred but not reported losses, is based on an actuarial valuation and internal estimates. The accruals for these liabilities could be revised if future occurrences or loss development significantly differ from our assumptions used. As of December 31, 2013, our commercial General Liability Insurance Policy carried self-insurance exposures of up to \$2.5 million per incident and our workers' compensation insurance program carried self-insurance exposures of up to \$5 million per incident. As of December 31, 2013, our auto liability insurance program included a per-incident base deductible of \$5 million, subject to additional deductibles of \$4.8 million in the \$5 million to \$10 million layer. Self-insurance claims reserves acquired as part of our acquisition of WM Holdings in July 1998 were discounted at 3.0% at December 31, 2013, 1.75% at December 31, 2012 and 2.0% at December 31, 2011. The changes to our net insurance liabilities for the three years ended December 31, 2013 are summarized below (in millions):

|                                              | <u>Gross Claims<br/>Liability</u> | <u>Receivables<br/>Associated with<br/>Insured Claims(a)</u> | <u>Net Claims<br/>Liability</u> |
|----------------------------------------------|-----------------------------------|--------------------------------------------------------------|---------------------------------|
| Balance, December 31, 2010 .....             | \$ 523                            | \$(170)                                                      | \$ 353                          |
| Self-insurance expense (benefit) .....       | 176                               | (14)                                                         | 162                             |
| Cash (paid) received .....                   | <u>(188)</u>                      | <u>23</u>                                                    | <u>(165)</u>                    |
| Balance, December 31, 2011 .....             | 511                               | (161)                                                        | 350                             |
| Self-insurance expense (benefit) .....       | 222                               | (59)                                                         | 163                             |
| Cash (paid) received .....                   | <u>(164)</u>                      | <u>18</u>                                                    | <u>(146)</u>                    |
| Balance, December 31, 2012 .....             | 569                               | (202)                                                        | 367                             |
| Self-insurance expense (benefit) .....       | 177                               | (5)                                                          | 172                             |
| Cash (paid) received .....                   | <u>(156)</u>                      | <u>10</u>                                                    | <u>(146)</u>                    |
| Balance, December 31, 2013(b) .....          | <u>\$ 590</u>                     | <u>\$(197)</u>                                               | <u>\$ 393</u>                   |
| Current portion at December 31, 2013 .....   | \$ 121                            | \$ (23)                                                      | \$ 98                           |
| Long-term portion at December 31, 2013 ..... | \$ 469                            | \$(174)                                                      | \$ 295                          |

(a) Amounts reported as receivables associated with insured claims are related to both paid and unpaid claims liabilities.

(b) We currently expect substantially all of our net claims liability to be settled in cash over the next five years.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Directors' and Officers' Liability Insurance policy we choose to maintain covers only individual executive liability, often referred to as "Broad Form Side A," and does not provide corporate reimbursement coverage, often referred to as "Side B." The Side A policy covers directors and officers directly for loss, including defense costs, when corporate indemnification is unavailable. Side A-only coverage cannot be exhausted by payments to the Company, as the Company is not insured for any money it advances for defense costs or pays as indemnity to the insured directors and officers.

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.

*Operating Leases* — Rental expense for leased properties was \$170 million during 2013, \$180 million during 2012 and \$138 million during 2011. Minimum contractual payments due for our operating lease obligations are \$100 million in 2014, \$86 million in 2015, \$64 million in 2016, \$55 million in 2017, \$46 million in 2018 and \$393 million thereafter. Our minimum contractual payments for lease agreements during future periods is less than current year rent expense due to short-term leases.

#### *Other Commitments*

- *Fuel Supply* — We have purchase agreements expiring at various dates through 2025 that require us to purchase minimum amounts of wood waste, anthracite coal waste (culm) and conventional fuels at our independent power production plants. These fuel supplies are used to produce steam that is sold to industrial and commercial users and electricity that is sold to electric utilities, which is generally subject to the terms and conditions of long-term contracts. Our purchase agreements have been established based on the plants' anticipated fuel supply needs to meet the demands of our customers under these long-term electricity sale contracts. Under our fuel supply take-or-pay contracts, we are generally obligated to pay for a minimum amount of waste or conventional fuel at a stated rate even if such quantities are not required in our operations.
- *Disposal* — We have several agreements expiring at various dates through 2052 that require us to dispose of a minimum number of tons at third-party disposal facilities. Under these put-or-pay agreements, we are required to pay for the agreed upon minimum volumes regardless of the actual number of tons placed at the facilities. We generally fulfill our minimum contractual obligations by disposing of volumes collected in the ordinary course of business at these disposal facilities.
- *Waste Paper* — We are party to waste paper purchase agreements expiring at various dates through 2017 that require us to purchase a minimum number of tons of waste paper. The cost per ton we pay is based on market prices.
- *Royalties* — We have various arrangements that require us to make royalty payments to third parties including prior land owners, lessors or host communities where our operations are located. Our obligations generally are based on per ton rates for waste actually received at our transfer stations, landfills or waste-to-energy facilities. Royalty agreements that are non-cancelable and require fixed or minimum payments are included in our "Capital leases and other" debt obligations in our Consolidated Balance Sheet as disclosed in Note 7.

Our unconditional obligations are established in the ordinary course of our business and are structured in a manner that provides us with access to important resources at competitive, market-driven rates. Our actual future minimum obligations under these outstanding agreements are generally quantity driven and, as a result, our associated financial obligations are not fixed as of December 31, 2013. For contracts that require us to purchase minimum quantities of goods or services, we have estimated our future minimum obligations based on the current market values of the underlying products or services. As of December 31, 2013, our estimated minimum obligations for the above-described purchase obligations, which are not recognized in our Consolidated Balance Sheet, were \$76 million in 2014, \$44 million in 2015, \$25 million in 2016, \$17 million in 2017, \$9 million in 2018 and \$231 million thereafter. We currently expect the products and services provided by these agreements to continue to meet the needs of our ongoing operations. Therefore, we do not expect these established arrangements to materially impact our future financial position, results of operations or cash flows.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Credit Commitments* — In the first quarter of 2012, we formed a U.K. joint venture, together with a commercial waste management company, to develop a waste-to-energy and recycling facility in England. In connection with this investment, we are committed to provide funding of up to £57 million, or \$94 million, based on the exchange rate as of December 31, 2013, to be used for the development and construction of the facility. Additional information related to this investment is included in Note 20.

Additionally, in the second quarter of 2012, we invested in another U.K. joint venture, together with an electric utility company, to develop a waste-to-energy and recycling facility in England. In connection with this investment, we are committed to provide funding of up to £156 million, or \$258 million based upon the exchange rates at December 31, 2013, to be used for the development and construction of the facility. Through December 31, 2013, we had funded approximately £81 million, or \$135 million, through loans and £6 million, or \$9 million, through equity contributions.

In 2011, we made a noncontrolling equity investment in an entity focused on the conversion of municipal solid waste into advanced bio-fuels. In connection with this investment, we agreed to provide the entity with a secured loan facility whereby we would fund up to \$70 million to support the construction of the entity's first bio-fuel facility. Our obligation to fund this secured loan agreement is contingent upon the satisfaction of certain conditions by the borrower. The borrower has until November 2014 to draw on the facility and must repay the loan over a term not to exceed 12 years from the plant's commencement of commercial operations.

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

- As of December 31, 2013, WM Holdings has fully and unconditionally guaranteed all of WM's senior indebtedness, including its senior notes, \$2.25 billion revolving credit agreement and certain letter of credit facilities, which mature through 2039. WM has fully and unconditionally guaranteed the senior indebtedness of WM Holdings, which matures in 2026. Performance under these guarantee agreements would be required if either party defaulted on their respective obligations. No additional liabilities have been recorded for these guarantees because the underlying obligations are reflected in our Consolidated Balance Sheets. See Note 23 for further information.
- WM and WM Holdings have guaranteed subsidiary debt obligations, including the Canadian credit facility, tax-exempt bonds, capital leases and other indebtedness. If a subsidiary fails to meet its obligations associated with its debt agreements as they come due, WM or WM Holdings will be required to perform under the related guarantee agreement. No additional liabilities have been recorded for these guarantees because the underlying obligations are reflected in our Consolidated Balance Sheets. See Note 7 for information related to the balances and maturities of our tax-exempt bonds.
- We have guaranteed certain financial obligations of unconsolidated entities. The related obligations, which mature through 2020, are not recorded on our Consolidated Balance Sheets. As of December 31, 2013, our maximum future payments associated with these guarantees are approximately \$9 million. Any requirement to act under these guarantees would not materially impact our financial position, results of operations or cash flows.
- Certain of our subsidiaries have guaranteed the market or contractually-determined value of certain homeowners' properties that are adjacent to certain of our landfills. These guarantee agreements extend over the life of the respective landfill. Under these agreements, we would be responsible for the difference, if any, between the sale value and the guaranteed market or contractually-determined value of the homeowners' properties. As of December 31, 2013, we have agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 21 of our landfills. We do not believe that these contingent obligations will have a material effect on our financial position, results of operations or cash flows.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- 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 that it is possible to determine the contingent obligations associated with these indemnities. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing. We have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.
- WM and WM Holdings guarantee the service, lease, financial and general operating obligations of certain of their subsidiaries. If such a subsidiary fails to meet its contractual obligations as they come due, the guarantor has an unconditional obligation to perform on its behalf. No additional liability has been recorded for service, financial or general operating guarantees because the subsidiaries' obligations are properly accounted for as costs of operations as services are provided or general operating obligations as 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.

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

As of December 31, 2013, we had been notified by the government that we are a PRP in connection with 77 locations listed on the EPA's Superfund National Priorities List, or NPL. Of the 77 sites at which claims have been made against us, 14 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to characterize or remediate identified site problems, and we have either agreed with other legally liable parties on an arrangement for sharing the costs of remediation or are working toward a cost-sharing agreement. We generally expect to receive any amounts due from other participating parties at or near the time that we make the remedial expenditures. The other 63 NPL sites, which we do not own, are at various procedural stages under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, known as CERCLA or Superfund.

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

Item 103 of the SEC's Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings, or such proceedings are known to be contemplated, unless we reasonably believe that the matter will result in no monetary sanctions, or in monetary sanctions, exclusive of



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

interest and costs, of less than \$100,000. The following matter is disclosed in accordance with that requirement. We do not currently believe that the eventual outcome of such matter could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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

Additionally, the United States Attorney's Office for the District of Hawaii has been conducting an investigation prompted by allegations of violations of the federal Clean Water Act involving discharge of stormwater at the Waimanalo Gulch Sanitary Landfill, located on Oahu, in connection with three major storm events in December 2010 and January 2011. No formal enforcement action has been brought against the Company. While we could potentially be subject to sanctions, including requirements to pay monetary penalties, in connection with a future proceeding that may arise from the investigation, a range of loss cannot currently be estimated because no proceeding has yet commenced and significant factual and legal issues remain. We are cooperating with the U.S. Attorney's Office.

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

From time to time, we are also named as defendants in personal injury and property damage lawsuits, including purported class actions, on the basis of having owned, operated or transported waste to a disposal facility that is alleged to have contaminated the environment or, in certain cases, on the basis of having conducted environmental remediation activities at sites. Some of the lawsuits may seek to have us pay the costs of monitoring of allegedly affected sites and health care examinations of allegedly affected persons for a substantial period of time even where no actual damage is proven. While we believe we have meritorious defenses to these lawsuits, the ultimate resolution is often substantially uncertain due to the difficulty of determining the cause, extent and impact of alleged contamination (which may have occurred over a long period of time), the potential for successive groups of complainants to emerge, the diversity of the individual plaintiffs' circumstances, and the potential contribution or indemnification obligations of co-defendants or other third parties, among other factors. Additionally, we often enter into agreements with landowners imposing obligations on us to meet certain regulatory or contractual conditions upon site closure or upon termination of the agreements. Compliance with these agreements inherently involves subjective determinations and may result in disputes, including litigation.

As a large company with operations across the United States and Canada, we are subject to various proceedings, lawsuits, disputes and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us include commercial, customer, and employment-related claims, including purported class action lawsuits related to our sales and marketing practices and our customer service agreements and purported class actions involving federal



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and state wage and hour and other laws. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. These actions are in various procedural stages, and some are covered in part by insurance. We currently do not believe that the eventual outcome of any such actions could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

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

*Multiemployer Defined Benefit Pension Plans* — About 20% of our workforce is covered by collective bargaining agreements with various union locals across the United States and Canada. As a result of some of these agreements, certain of our subsidiaries are participating employers in a number of trustee-managed multiemployer defined benefit pension plans for the covered employees. Refer to Note 10 for additional information about our participation in multiemployer defined benefit pension plans considered individually significant. In connection with our ongoing renegotiation of various collective bargaining agreements, we may discuss and negotiate for the complete or partial withdrawal from one or more of these pension plans. A complete or partial withdrawal from a multiemployer pension plan may also occur if employees covered by a collective bargaining agreement vote to decertify a union from continuing to represent them. Any other circumstance resulting in a decline in Company contributions to a multiemployer defined benefit pension plan through a reduction in the labor force, whether through attrition over time or through a business event (such as the discontinuation or nonrenewal of a customer contract, the decertification of a union, or relocation, reduction or discontinuance of certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans.

One of the most significant multiemployer pension plans in which we have participated is the Central States, Southeast and Southwest Areas Pension Plan ("Central States Pension Plan"). The Central States Pension Plan is in "critical status," as defined by the Pension Protection Act of 2006. Since 2008, certain of our affiliates have bargained to remove covered employees from the Central States Pension Plan, resulting in a series of withdrawals, and we have recognized charges to "Operating" expenses associated with the withdrawal of certain bargaining units from the Central States Pension Plan and other underfunded multiemployer pension plans. In October 2011, employees at the last of our affiliates with active participants in the Central States Pension Plan voted to decertify the union that represented them, withdrawing themselves from the Central States Pension Plan. The Company believes there are no collective bargaining agreements remaining that require continuing contributions to this plan; however, this point is the subject of pending litigation with the trustees for the Central States, Southeast and Southwest Areas Pension Plan.

We are still negotiating and litigating final resolutions of our withdrawal liability for certain previous withdrawals. Except in the case of our withdrawals from the Central States Pension Plan, we do not believe any additional liability above the charges we have already recognized for such previous withdrawals could be material to the Company's business, financial condition, liquidity, results of operations or cash flows. In addition to charges recognized in prior years, we currently estimate that we could incur up to approximately \$40 million in future charges based on demands from representatives of the Central States Pension Plan. As a result, we do

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

not anticipate that the final resolution of the Central States Pension Plan matter could be material to the Company's business, financial condition or liquidity; however, such loss could have a material adverse effect on our cash flows and, to a lesser extent, our results of operations, for a particular reporting period. Similarly, we also do not believe that any future withdrawals, individually or in the aggregate, from the multiemployer pension plans to which we contribute, could have a material adverse effect on our business, financial condition or liquidity. However, such withdrawals could have a material adverse effect on our results of operations or cash flows for a particular reporting period, depending on the number of employees withdrawn in any future period and the financial condition of the multiemployer pension plan(s) at the time of such withdrawal(s).

*Tax Matters* — We are currently in the examination phase of IRS audits for the tax years 2013 and 2014 and expect these audits to be completed within the next 15 and 27 months, respectively. We participate in the IRS's Compliance Assurance Process, which means we work with the IRS throughout the year in order to resolve any material issues prior to the filing of our annual tax return. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2005, with the exception of affirmative claims in one jurisdiction that date back to 2000. We are not currently under audit in Canada and, due to the expiration of statutes of limitations, all tax years prior to 2009 are closed. In July 2011, we acquired Oakleaf, which is subject to potential IRS examinations for the years 2010 and 2011. Pursuant to the terms of our acquisition of Oakleaf, we are entitled to indemnification for Oakleaf's pre-acquisition period tax liabilities. We maintain a liability for uncertain tax positions, the balance of which management believes is adequate. Results of audit assessments by taxing authorities are not currently expected to have a material adverse impact on our results of operations or cash flows.

### 12. Restructuring

The following table summarizes pre-tax restructuring charges, including employee severance and benefit costs and other charges, for the years ended December 31 for the respective periods (in millions):

|                           | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------|-------------|-------------|-------------|
| Solid Waste .....         | \$ 7        | \$19        | \$10        |
| Wheelabrator .....        | 1           | 3           | 1           |
| Corporate and Other ..... | <u>10</u>   | <u>45</u>   | <u>8</u>    |
|                           | <u>\$18</u> | <u>\$67</u> | <u>\$19</u> |

During the year ended December 31, 2013, we recognized a total of \$18 million of pre-tax restructuring charges, of which \$7 million was related to employee severance and benefit costs, including costs associated with our acquisitions of Greenstar and RCI and our 2012 restructurings discussed below. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized. We do not expect to incur any material charges associated with our past restructuring efforts in future periods.

*2012 Restructurings* — In July 2012, we announced a reorganization of operations, designed to streamline management and staff support and reduce our cost structure, while not disrupting our front-line operations. Principal organizational changes included removing the management layer of our four geographic Groups, each of which previously constituted a reportable segment, and consolidating and reducing the number of our geographic Areas through which we evaluate and oversee our Solid Waste subsidiaries from 22 to 17. This reorganization eliminated approximately 700 employee positions throughout the Company, including positions at both the management and support level. Voluntary separation arrangements were offered to many employees.

Additionally, in 2012, we recognized employee severance and benefits restructuring charges associated with the reorganization of Oakleaf discussed below that began in 2011 along with certain other actions taken by the Company in early 2012.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the year ended December 31, 2012, we recognized a total of \$67 million of pre-tax restructuring charges, of which \$56 million were related to employee severance and benefit costs associated with these reorganizations. The remaining charges were primarily related to operating lease obligations for property that will no longer be utilized.

*2011 Restructurings* — Beginning in July 2011, we took steps to streamline our organization as part of our cost savings programs. This reorganization eliminated over 700 employee positions throughout the Company, including approximately 300 open positions. Additionally, subsequent to our acquisition of Oakleaf, we incurred charges in connection with restructuring that organization. During the year ended December 31, 2011, we recognized a total of \$19 million of pre-tax restructuring charges, of which \$18 million were related to employee severance and benefit costs.

Through December 31, 2013, we had recognized charges of \$81 million related to employee severance and benefits associated with our restructuring efforts beginning in 2011 and we have paid approximately \$74 million of these costs. At December 31, 2013, we had approximately \$4 million of accrued employee severance related to our restructuring efforts, which will be paid through the end of 2014.

### 13. Asset Impairments and Unusual Items

#### *Goodwill impairments*

During the year ended December 31, 2013, we recognized \$509 million of goodwill impairment charges, primarily related to (i) \$483 million associated with our Wheelabrator business; (ii) \$10 million associated with our Puerto Rico operations and (iii) \$9 million associated with a majority-owned waste diversion technology company. During the years ended December 31, 2012 and 2011, we recognized goodwill impairment charges of \$4 million and \$1 million, respectively, related to certain of our non-Solid Waste operations. See Notes 3 and 6 for additional information related to these impairment charges as well as the accounting policy and analysis involved in identifying and calculating impairments.

#### *(Income) expense from divestitures, asset impairments (other than goodwill) and unusual items*

The following table summarizes the major components of “(Income) expense from divestitures, asset impairments and unusual items” for the years ended December 31 for the respective periods (in millions):

|                                                   | <u>2013</u>  | <u>2012</u> | <u>2011</u> |
|---------------------------------------------------|--------------|-------------|-------------|
| (Income) expense from divestitures . . . . .      | \$ (8)       | \$—         | \$1         |
| Asset impairments (other than goodwill) . . . . . | <u>472</u>   | <u>79</u>   | <u>8</u>    |
|                                                   | <u>\$464</u> | <u>\$79</u> | <u>\$9</u>  |

During the year ended December 31, 2013, we recognized net charges of \$464 million, primarily related to the following:

- *Landfill impairments* — We recognized \$262 million of charges to impair certain of our landfills, primarily as a result of our consideration of management’s decision in the fourth quarter of 2013 not to actively pursue expansion and/or development of such landfills. These charges were primarily associated with two landfills in our Eastern Canada Area, which are no longer accepting waste. We had previously concluded that receipt of permits for these landfills was probable. However, in connection with our asset rationalization and capital allocation analysis, which was influenced, in some cases, by our acquisition of RCI, we determined that the future costs to construct these landfills could be avoided as we are able to allocate disposal that would have gone to these landfills to other facilities and not materially impact operations. As a result of management’s decision, we determined that the landfill assets were no longer able to be recovered by the undiscounted cash flows attributable to these assets. As such, we wrote them down to their estimated fair values using a market approach considering the highest and best use of the assets.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- *Waste-to-energy impairments* — We recognized \$144 million of impairment charges relating to three waste-to-energy facilities, primarily as a result of closure or anticipated closure due to continued difficulty securing sufficient volumes to operate the plants at capacity and the prospect of additional capacity entering the market where the largest facility is located. We wrote down the carrying value of our facilities to their estimated fair value using a market approach.
- *Other impairments* — The remainder of our 2013 charges were attributable to (i) \$31 million of charges to impair various recycling assets; (ii) \$20 million of charges to write down assets related to a majority-owned waste diversion technology company and; (iii) a \$15 million charge to write down the carrying value of an oil and gas property to its estimated fair value.
- *Divestitures* — Partially offsetting these charges were \$8 million of net gains on divestitures.

See Note 3 for additional information related to the accounting policy and analysis involved in identifying and calculating impairments.

During the year ended December 31, 2012, we recognized impairment charges aggregating \$79 million, attributable to (i) \$45 million of charges related to three facilities in our medical waste services business as a result of projected operating losses at each of these facilities; (ii) \$20 million of charges related to investments in waste diversion technology companies and (iii) other charges to write down the carrying value of assets to their estimated fair values, all of which are individually immaterial.

During the year ended December 31, 2011, we recognized impairment charges relating to two facilities in our medical waste services business, in addition to the three facilities impaired in 2012 discussed above, as a result of the closure of one site and continuing operating losses at the other site.

Refer to Note 21 for information related to the impact of impairments on the results of operations of our reportable segments.

#### ***Equity in net losses of unconsolidated entities***

During the year ended December 31, 2012, we recognized a charge of \$10 million related to a payment we made under a guarantee on behalf of an unconsolidated entity that went into liquidation. This investment was accounted for under the equity method.

#### ***Other income (expense)***

During the year ended December 31, 2013, we recognized impairment charges of \$71 million relating to other-than-temporary declines in the value of investments in waste diversion technology companies accounted for under the cost method. We wrote down the carrying value of our investments to their fair value, which was primarily determined using an income approach based on estimated future cash flow projections obtained in the fourth quarter of 2013 and, to a lesser extent, third-party investors' recent transactions in these securities. Partially offsetting these charges was a \$4 million gain on the sale of a similar investment recognized in the second quarter of 2013.

During the year ended December 31, 2012, we recognized an impairment charge of \$16 million relating to an other-than-temporary decline in the value of another investment in a waste diversion technology company accounted for under the cost method. We wrote down the carrying value of our investment to its fair value based on other third-party investors' recent transactions in these securities, which are considered to be the best evidence of fair value currently available.

These net charges are recorded in "Other, net" in our Consolidated Statement of Operations.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**14. Accumulated Other Comprehensive Income**

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

|                                                                           | Gains and<br>Losses on<br>Derivative<br>Instruments | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Foreign<br>Currency<br>Translation<br>Adjustments | Post-<br>Retirement<br>Benefit<br>Plans | Total        |
|---------------------------------------------------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------|--------------|
| Balance, December 31, 2010 .....                                          | \$(33)                                              | \$ 5                                                                         | \$261                                             | \$ (3)                                  | \$230        |
| Other comprehensive income (loss) before<br>reclassifications .....       | (30)                                                | (3)                                                                          | (18)                                              | (8)                                     | (59)         |
| Amounts reclassified from accumulated other<br>comprehensive income ..... | <u>1</u>                                            | <u>—</u>                                                                     | <u>—</u>                                          | <u>—</u>                                | <u>1</u>     |
| Net current period other comprehensive income<br>(loss) .....             | <u>(29)</u>                                         | <u>(3)</u>                                                                   | <u>(18)</u>                                       | <u>(8)</u>                              | <u>(58)</u>  |
| Balance, December 31, 2011 .....                                          | \$(62)                                              | \$ 2                                                                         | \$243                                             | \$(11)                                  | \$172        |
| Other comprehensive income (loss) before<br>reclassifications .....       | (22)                                                | 2                                                                            | 33                                                | (2)                                     | 11           |
| Amounts reclassified from accumulated other<br>comprehensive income ..... | <u>10</u>                                           | <u>—</u>                                                                     | <u>—</u>                                          | <u>—</u>                                | <u>10</u>    |
| Net current period other comprehensive income<br>(loss) .....             | <u>(12)</u>                                         | <u>2</u>                                                                     | <u>33</u>                                         | <u>(2)</u>                              | <u>21</u>    |
| Balance, December 31, 2012 .....                                          | \$(74)                                              | \$ 4                                                                         | \$276                                             | \$(13)                                  | \$193        |
| Other comprehensive income (loss) before<br>reclassifications .....       | 14                                                  | 2                                                                            | (68)                                              | 15                                      | (37)         |
| Amounts reclassified from accumulated other<br>comprehensive income ..... | <u>(2)</u>                                          | <u>—</u>                                                                     | <u>—</u>                                          | <u>—</u>                                | <u>(2)</u>   |
| Net current period other comprehensive income<br>(loss) .....             | <u>12</u>                                           | <u>2</u>                                                                     | <u>(68)</u>                                       | <u>15</u>                               | <u>(39)</u>  |
| Balance, December 31, 2013 .....                                          | <u>\$(62)</u>                                       | <u>\$ 6</u>                                                                  | <u>\$208</u>                                      | <u>\$ 2</u>                             | <u>\$154</u> |

The amounts of other comprehensive income (loss) before reclassifications associated with our cash flow derivative instruments are as follows (in millions):

|                                                   | Amount of Derivative Gain (Loss) Recognized in OCI<br>(Effective Portion) |               |               |
|---------------------------------------------------|---------------------------------------------------------------------------|---------------|---------------|
|                                                   | Years Ended December 31,                                                  |               |               |
|                                                   | 2013                                                                      | 2012          | 2011          |
| <b>Derivatives Designated as Cash Flow Hedges</b> |                                                                           |               |               |
| Forward-starting interest rate swaps .....        | \$14                                                                      | \$(27)        | \$(59)        |
| Foreign currency derivatives .....                | 17                                                                        | (9)           | 1             |
| Electricity commodity derivatives .....           | <u>(8)</u>                                                                | <u>—</u>      | <u>8</u>      |
| Total before tax .....                            | 23                                                                        | (36)          | (50)          |
| Tax (expense) benefit .....                       | <u>(9)</u>                                                                | <u>14</u>     | <u>20</u>     |
| Net of tax .....                                  | <u>\$14</u>                                                               | <u>\$(22)</u> | <u>\$(30)</u> |

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified from<br>Accumulated<br>Other Comprehensive Income(a) |        |       | Statement of<br>Operations Classification |
|-----------------------------------------------------------------|--------------------------------------------------------------------------|--------|-------|-------------------------------------------|
|                                                                 | Years Ended December 31,                                                 |        |       |                                           |
|                                                                 | 2013                                                                     | 2012   | 2011  |                                           |
| Gains and losses on cash flow hedges:                           |                                                                          |        |       |                                           |
| Forward-starting interest rate swaps . . . . .                  | \$ (7)                                                                   | \$ (3) | \$(1) | Interest expense                          |
| Treasury rate locks . . . . .                                   | (2)                                                                      | (7)    | (7)   | Interest expense                          |
| Foreign currency derivatives . . . . .                          | 21                                                                       | (15)   | 4     | Other, net                                |
| Electricity commodity derivatives . . . . .                     | (9)                                                                      | 10     | 2     | Operating revenues                        |
|                                                                 | 3                                                                        | (15)   | (2)   | Total before tax                          |
|                                                                 | (1)                                                                      | 5      | 1     | Tax (expense) benefit                     |
| Total reclassifications for the period . . . . .                | \$ 2                                                                     | \$(10) | \$(1) | Net of tax                                |

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

### 15. Capital Stock, Dividends and Share Repurchases

#### Capital Stock

We have 1.5 billion shares of authorized common stock with a par value of \$0.01 per common share. As of December 31, 2013, we had 464.3 million shares of common stock issued and outstanding. The Board of Directors is authorized to issue preferred stock in series, and with respect to each series, to fix its designation, relative rights (including voting, dividend, conversion, sinking fund, and redemption rights), preferences (including dividends and liquidation) and limitations. We have 10 million shares of authorized preferred stock, \$0.01 par value, none of which is currently outstanding.

#### Dividends

Our quarterly dividends have been declared and approved by our Board of Directors and paid in accordance with our financial plans. Cash dividends declared and paid were \$683 million in 2013, or \$1.46 per common share, \$658 million in 2012, or \$1.42 per common share, and \$637 million in 2011, or \$1.36 per common share.

In February 2014, we announced that our Board of Directors expects to increase the quarterly dividend from \$0.365 to \$0.375 per share for dividends declared in 2014. However, all future dividend declarations are at the discretion of the Board of Directors and depend on various factors, including our net earnings, financial condition, cash required for future business plans and other factors the Board may deem relevant.

#### Share Repurchases

Our share repurchases have been made in accordance with financial plans approved by our Board of Directors. The following is a summary of our share repurchases for the periods presented. We did not repurchase any shares of common stock in 2012.

|                                           | Years Ended December 31, |                 |
|-------------------------------------------|--------------------------|-----------------|
|                                           | 2013                     | 2011            |
| Shares repurchased (in thousands)         | 5,368                    | 17,338          |
| Weighted average per share purchase price | \$43.48-\$45.95          | \$28.95-\$39.57 |
| Total repurchases (in millions)           | \$239                    | \$575           |



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In December 2012, the Board of Directors authorized up to \$500 million in share repurchases, and we repurchased \$239 million of our common stock pursuant to that authorization in 2013. In February 2014, the Board of Directors authorized up to \$600 million in future share repurchases; this authorization both replaces and increases the amount that remained available for share repurchases under the prior authorization. Any future share repurchases will be made at the discretion of management, and will depend on factors similar to those considered by the Board in making dividend declarations.

### 16. Stock-Based Compensation

#### *Employee Stock Purchase Plan*

We have an Employee Stock Purchase Plan (“ESPP”) under which employees that have been employed for at least 30 days may purchase shares of our common stock at a discount. The plan provides for two offering periods for purchases: January through June and July through December. At the end of each offering period, employees are able to purchase shares of our common stock at a price equal to 85% of the lesser of the market value of the stock on the first and last day of such offering period. The purchases are made at the end of an offering period with funds accumulated through payroll deductions over the course of the offering period, and the number of shares that may be purchased is limited by IRS regulations. The total number of shares issued under the plan for the offering periods in each of 2013, 2012 and 2011 was approximately 928,000, 1 million and 920,000, respectively. Including the impact of the January 2014 issuance of shares associated with the July to December 2013 offering period, approximately 1.7 million shares remain available for issuance under the plan.

Accounting for our ESPP increased annual compensation expense by approximately by \$6 million, or \$4 million net of tax, for 2013 and by \$7 million, or \$4 million net of tax, for 2012 and 2011.

#### *Employee Stock Incentive Plans*

We currently grant equity and equity-based awards to our officers, employees and independent directors using our 2009 Stock Incentive Plan (“LTIP”). The LTIP provides for the issuance of up to 26.2 million shares of our common stock. As of December 31, 2013, approximately 4.2 million shares remain available for future grants under the LTIP. We currently utilize treasury shares to meet the needs of our equity-based compensation programs.

Pursuant to the LTIP, we have the ability to issue stock options, stock appreciation rights and stock awards, including restricted stock, restricted stock units, or RSUs, and performance share units, or PSUs. The terms and conditions of equity awards granted under the LTIP are determined by the Management Development and Compensation Committee of our Board of Directors.

The 2013 annual LTIP awards granted to the Company’s senior leadership team, which generally includes the Company’s executive officers, included a combination of PSUs and stock options. The annual LTIP awards granted to certain key employees included a combination of PSUs, RSUs and stock options in 2013. The Company has also periodically granted RSUs and stock options to employees working on key initiatives, in connection with new hires and promotions and to field-based managers.

*Restricted Stock Units* — A summary of our RSUs is presented in the table below (units in thousands):

|                               | Units      | Weighted Average<br>Fair Value |
|-------------------------------|------------|--------------------------------|
| Unvested at January 1, 2013   | 316        | \$34.46                        |
| Granted                       | 263        | \$37.00                        |
| Vested                        | (21)       | \$34.05                        |
| Forfeited                     | (23)       | \$35.57                        |
| Unvested at December 31, 2013 | <u>535</u> | \$35.68                        |



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The total fair market value of RSUs that vested during the years ended December 31, 2013, 2012 and 2011 was \$1 million, \$11 million and \$9 million, respectively. Net of units deferred and units used for payment of associated taxes, we issued approximately 15,000, 196,000 and 162,000 shares of common stock for RSUs that vested during the years ended December 31, 2013, 2012 and 2011, respectively.

RSUs provide award recipients with dividend equivalents during the vesting period, but the units may not be voted or sold until time-based vesting restrictions have lapsed. RSUs primarily provide for three-year cliff vesting. Unvested units are subject to forfeiture in the event of voluntary or for-cause termination. RSUs are subject to pro-rata vesting upon an employee's retirement or involuntary termination other than for cause and become immediately vested in the event of an employee's death or disability.

Compensation expense associated with RSUs is measured based on the grant-date fair value of our common stock and is recognized on a straight-line basis over the required employment period, which is generally the vesting period. Compensation expense is only recognized for those awards that we expect to vest, which we estimate based upon an assessment of expected forfeitures.

*Performance Share Units* — Two types of PSUs are currently outstanding: PSUs for which payout is dependent on the Company's performance against pre-established return on invested capital metrics ("ROIC PSUs") and PSUs for which payout is dependent on total shareholder return relative to the S&P 500 ("TSR PSUs"). Both types of PSUs are payable in shares of common stock after the end of a three-year performance period, when the Company's financial performance for the entire performance period is reported, typically in mid- to late-February of the succeeding year. At the end of the performance period, the number of shares awarded can range from 0% to 200% of the targeted amount, depending on the performance against the pre-established targets. A summary of our PSUs is presented in the table below (units in thousands):

|                                     | Units        | Weighted Average<br>Fair Value |
|-------------------------------------|--------------|--------------------------------|
| Unvested at January 1, 2013 .....   | 1,718        | \$36.20                        |
| Granted .....                       | 752          | \$43.38                        |
| Vested .....                        | (599)        | \$36.47                        |
| Forfeited .....                     | (45)         | \$43.43                        |
| Unvested at December 31, 2013 ..... | <u>1,826</u> | <u>\$43.41</u>                 |

The determination of achievement of performance results and corresponding vesting of PSUs for the three-year performance period ended December 31, 2013 was performed by the Management Development and Compensation Committee in February 2014. Accordingly, vesting information for such awards is not included in the table above as of December 31, 2013. The "vested" PSUs are for the three-year performance period ended December 31, 2012, as achievement of performance results and corresponding vesting was determined in February 2013. The Company's financial results, as measured for purposes of these awards, were lower than the target levels established but in excess of the threshold performance criteria. Accordingly, recipients of these PSU awards were entitled to receive a payout of approximately 63% of the vested PSUs. In early 2013, we issued approximately 238,000 shares of common stock for these vested PSUs, net of units deferred and units used for payment of associated taxes.

The shares of common stock that were earned during the years ended December 31, 2013 and 2012 on account of PSU awards had a fair market value of \$14 million and \$32 million, respectively. No shares of common stock were earned in 2011, as the Company's performance for purposes of the PSUs for the performance period ended December 31, 2010 did not meet threshold criteria. PSUs have no voting rights. PSUs receive dividend equivalents that are paid out in cash based on actual performance at the end of the awards' performance period. PSUs are payable to an employee (or his beneficiary) upon death or disability as if that

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

employee had remained employed until the end of the performance period, are subject to pro-rata vesting upon an employee's retirement or involuntary termination other than for cause and are subject to forfeiture in the event of voluntary or for-cause termination.

Compensation expense associated with our ROIC PSUs that continue to vest based on future performance is measured based on the fair value of our common stock at the end of each reporting period until the performance period ends. Compensation expense is recognized ratably over the performance period based on our estimated achievement of the established performance criteria. Compensation expense is only recognized for those awards that we expect to vest, which we estimate based upon an assessment of both the probability that the performance criteria will be achieved and expected forfeitures.

The grant-date fair value of our TSR PSUs is based on a Monte Carlo valuation and compensation expense is recognized on a straight-line basis over the vesting period. Compensation expense is recognized for all TSR PSUs whether or not the market conditions are achieved less expected forfeitures.

*Deferred Units* — Recipients can elect to defer some or all of the vested RSU or PSU awards until a specified date or dates they choose. Deferred amounts are not invested, nor do they earn interest, but deferred amounts do earn dividend equivalents during deferral. Deferred amounts are paid out in shares of common stock at the end of the deferral period. At December 31, 2013, 2012 and 2011 we had approximately 297,000, 300,000 and 372,000, respectively, vested deferred units outstanding.

*Stock Options* — Stock options granted primarily vest in 25% increments on the first two anniversaries of the date of grant with the remaining 50% vesting on the third anniversary. The exercise price of the options is the average of the high and low market value of our common stock on the date of grant, and the options have a term of 10 years. A summary of our stock options is presented in the table below (options in thousands):

|                                           | <u>Options</u> | <u>Weighted Average<br/>Exercise Price</u> |
|-------------------------------------------|----------------|--------------------------------------------|
| Outstanding at January 1, 2013 .....      | 12,997         | \$33.96                                    |
| Granted .....                             | 1,968          | \$36.93                                    |
| Exercised .....                           | (4,788)        | \$31.06                                    |
| Forfeited or expired .....                | <u>(503)</u>   | \$34.32                                    |
| Outstanding at December 31, 2013(a) ..... | <u>9,674</u>   | \$35.98                                    |
| Exercisable at December 31, 2013(b) ..... | <u>3,790</u>   | \$35.01                                    |

- (a) Stock options outstanding as of December 31, 2013 have a weighted average remaining contractual term of 7.4 years and an aggregate intrinsic value of \$86 million based on the market value of our common stock on December 31, 2013.
- (b) Stock options exercisable as of December 31, 2013 have a weighted average remaining contractual term of 6.4 years and an aggregate intrinsic value of \$37 million based on the market value of our common stock on December 31, 2013. Stock options exercisable at December 31, 2013 have an exercise price ranging from \$29.24 to \$37.59.

We received cash proceeds of \$132 million, \$43 million and \$45 million during the years ended December 31, 2013, 2012 and 2011, respectively, from employee stock option exercises. We also realized tax benefits from these stock option exercises during the years ended December 31, 2013, 2012 and 2011 of \$10 million, \$5 million and \$8 million, respectively. These amounts have been presented as cash inflows in the "Cash flows from financing activities" section of our Consolidated Statements of Cash Flows. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$41 million, \$15 million and \$20 million, respectively.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

All unvested stock options shall become exercisable upon the award recipient's death or disability. In the event of a recipient's retirement, stock options shall continue to vest pursuant to the original schedule set forth in the award agreement. If the recipient is terminated by the Company without cause or voluntarily resigns, the recipient shall be entitled to exercise all stock options outstanding and exercisable within a specified time frame after such termination. All outstanding stock options, whether exercisable or not, are forfeited upon termination for cause.

We account for our employee stock options under the fair value method of accounting using a Black-Scholes methodology to measure stock option expense at the date of grant. The weighted average grant-date fair value of stock options granted during the years ended December 31, 2013, 2012 and 2011 was \$4.26, \$4.66 and \$5.88, respectively. The fair value of the stock options at the date of grant is amortized to expense over the vesting period less expected forfeitures, except for stock options granted to retirement-eligible employees, for which expense is accelerated over the period that the recipient becomes retirement-eligible. The following table presents the weighted average assumptions used to value employee stock options granted during the years ended December 31 under the Black-Scholes valuation model:

|                                   | 2013      | 2012      | 2011      |
|-----------------------------------|-----------|-----------|-----------|
| Expected option life . . . . .    | 5.4 years | 5.5 years | 5.4 years |
| Expected volatility . . . . .     | 21.8%     | 24.2%     | 24.2%     |
| Expected dividend yield . . . . . | 4.0%      | 4.1%      | 3.7%      |
| Risk-free interest rate . . . . . | 1.0%      | 1.1%      | 2.3%      |

The Company bases its expected option life on the expected exercise and termination behavior of its optionees and an appropriate model of the Company's future stock price. The expected volatility assumption is derived from the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options, combined with other relevant factors including implied volatility in market-traded options on the Company's stock. The dividend yield is the annual rate of dividends per share over the exercise price of the option as of the grant date.

For the years ended December 31, 2013, 2012 and 2011 we recognized \$54 million, \$22 million and \$38 million, respectively, of compensation expense associated with RSU, PSU and stock option awards as a component of "Selling, general and administrative" expenses in our Consolidated Statement of Operations. Our "Provision for income taxes" for the years ended December 31, 2013, 2012 and 2011 includes related deferred income tax benefits of \$21 million, \$9 million and \$15 million, respectively. We have not capitalized any equity-based compensation costs during the years ended December 31, 2013, 2012 and 2011.

Compensation expense recognized in 2013 increased when compared to 2012, in part due to the payout of PSUs granted in 2010, which was approved in 2013. Expense associated with these awards had been reversed in 2012 when it no longer appeared probable that threshold performance would be achieved. As of December 31, 2013 we estimate that a total of approximately \$46 million of currently unrecognized compensation expense will be recognized over a weighted average period of 1.4 years for unvested RSU, PSU and stock option awards issued and outstanding.

### *Non-Employee Director Plan*

Our non-employee directors currently receive annual grants of shares of our common stock, generally payable in two equal installments, under the LTIP described above. Due to tax-planning considerations, the non-employee directors' grants of common stock on account of 2013 board service were accelerated and paid out in December 2012.

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### 17. Earnings Per Share

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

|                                                                                                              | <u>Years Ended December 31,</u> |              |              |
|--------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|--------------|
|                                                                                                              | <u>2013</u>                     | <u>2012</u>  | <u>2011</u>  |
| Number of common shares outstanding at year-end .....                                                        | 464.3                           | 464.2        | 460.5        |
| Effect of using weighted average common shares outstanding .....                                             | <u>3.4</u>                      | <u>(0.6)</u> | <u>9.2</u>   |
| Weighted average basic common shares outstanding .....                                                       | 467.7                           | 463.6        | 469.7        |
| Dilutive effect of equity-based compensation awards and other<br>contingently issuable shares .....          | <u>2.1</u>                      | <u>0.8</u>   | <u>1.7</u>   |
| Weighted average diluted common shares outstanding .....                                                     | <u>469.8</u>                    | <u>464.4</u> | <u>471.4</u> |
| Potentially issuable shares .....                                                                            | 12.3                            | 15.3         | 17.0         |
| Number of anti-dilutive potentially issuable shares excluded from diluted<br>common shares outstanding ..... | 0.1                             | 8.9          | 10.6         |

### 18. Fair Value Measurements

#### *Assets and Liabilities Accounted for at Fair Value*

The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring assets and liabilities that are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* — Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of our assets and liabilities, we use market data or assumptions that we believe market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. Our assets and liabilities that are measured at fair value on a recurring basis include the following (in millions):

|                                             |              | Fair Value Measurements at<br>December 31, 2013 Using |                                                           |                                                    |
|---------------------------------------------|--------------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                             | Total        | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>                              |              |                                                       |                                                           |                                                    |
| Money market funds . . . . .                | \$ 99        | \$99                                                  | \$—                                                       | \$—                                                |
| Fixed-income securities . . . . .           | 36           | —                                                     | 36                                                        | —                                                  |
| Redeemable preferred stock . . . . .        | 25           | —                                                     | —                                                         | 25                                                 |
| Foreign currency derivatives . . . . .      | <u>2</u>     | <u>—</u>                                              | <u>2</u>                                                  | <u>—</u>                                           |
| Total assets . . . . .                      | <u>\$162</u> | <u>\$99</u>                                           | <u>\$38</u>                                               | <u>\$25</u>                                        |
| <b>Liabilities:</b>                         |              |                                                       |                                                           |                                                    |
| Interest rate derivatives . . . . .         | \$ 28        | \$—                                                   | \$28                                                      | \$—                                                |
| Electricity commodity derivatives . . . . . | <u>3</u>     | <u>—</u>                                              | <u>3</u>                                                  | <u>—</u>                                           |
| Total liabilities . . . . .                 | <u>\$ 31</u> | <u>\$—</u>                                            | <u>\$31</u>                                               | <u>\$—</u>                                         |

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

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### *Money Market Funds*

We invest portions of our “Cash and cash equivalents” and restricted trust and escrow account balances in money market funds. We measure the fair value of these money market fund investments using quoted prices in active markets for identical assets.

#### *Fixed-Income Securities*

We invest a portion of our restricted trust and escrow balances in fixed-income securities, including U.S. Treasury securities, U.S. agency securities, municipal securities and mortgage- and asset-backed securities. We measure the fair value of these securities using quoted prices for identical or similar assets in inactive markets. The fair value of our fixed-income securities approximates our cost basis in the investments.

#### *Redeemable Preferred Stock*

In November 2011, we made a noncontrolling investment in redeemable preferred stock of an unconsolidated entity, which is included in “Investments in unconsolidated entities” in our Consolidated Balance Sheet. The fair value of this investment has been measured based on third-party investors’ recent or pending transactions in these securities, which are considered the best evidence of fair value currently available. When this evidence is not available, we use other valuation techniques as appropriate and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public comparables. Based on our assessment of fair value at December 31, 2013, there has not been any significant change in the fair value of the redeemable preferred stock.

#### *Interest Rate Derivatives*

As of December 31, 2013, we are party to forward-starting interest rate swaps that are designated as cash flow hedges of anticipated interest payments for future fixed-rate debt issuances. Our forward-starting interest rate swaps are LIBOR-based instruments. Accordingly, these derivatives are valued using a third-party pricing model that incorporates information about LIBOR yield curves, which is considered observable market data, for each instrument’s respective term. The third-party pricing model used to value our interest rate derivatives also incorporates Company and counterparty credit valuation adjustments, as appropriate. Counterparties to our interest rate contracts are financial institutions who participate in our \$2.25 billion revolving credit facility. Valuations of our interest rate derivatives may fluctuate significantly from period-to-period due to volatility in underlying interest rates, which are driven by market conditions and the scheduled maturities of the derivatives.

#### *Foreign Currency Derivatives*

Our foreign currency derivatives are valued using a third-party pricing model that incorporates information about forward Canadian dollar rates, or observable market data, as of the reporting date. The third-party pricing model used to value our foreign currency derivatives also incorporates Company and counterparty credit valuation adjustments, as appropriate. Counterparties to these contracts are financial institutions who participate in our \$2.25 billion revolving credit facility. Valuations may fluctuate significantly from period-to-period due to volatility in the Canadian dollar to U.S. dollar exchange rate.

#### *Electricity Commodity Derivatives*

As of December 31, 2013, we are party to “receive fixed, pay variable” electricity commodity derivatives to hedge the variability in revenues and cash flows caused by fluctuations in the market prices for electricity. These derivative instruments are valued using third-party pricing models that incorporate observable market data, including forward power curves published by Platts and congestion rates where appropriate. The third-party pricing models also incorporate Company and counterparty credit valuation adjustments, as appropriate. Counterparties to our electricity commodity derivatives are either power marketing arms of investor-owned



## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

utilities or power trading desks at various financial institutions. Valuations of the Company's electricity commodity derivatives may fluctuate significantly from period-to-period due to volatility in the market price of electricity caused by factors such as demand and supply movements, changes in the price of natural gas, and weather related events, among others.

Refer to Notes 8 and 14 for additional information regarding our derivative instruments discussed above.

#### ***Fair Value of Debt***

At December 31, 2013 the carrying value of our debt was approximately \$10.2 billion compared with approximately \$9.9 billion at December 31, 2012. The carrying value of our debt includes adjustments associated with fair value hedge accounting related to our interest rate swaps as discussed in Note 8.

The estimated fair value of our debt was approximately \$11.0 billion at December 31, 2013 and approximately \$11.3 billion at December 31, 2012. The estimated fair value of our senior notes is based on quoted market prices. The carrying value of remarketable debt and borrowings under our revolving credit facilities approximates fair value due to the short-term nature of the interest rates. The fair value of our other debt is estimated using discounted cash flow analysis, based on current market rates for similar types of instruments. The decrease in the fair value of our debt when comparing December 31, 2013 with December 31, 2012 is primarily related to recent increases in long-term interest rates, which have caused a decline in market prices for fixed-rate corporate debt securities.

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

## **19. Acquisitions and Divestitures**

### ***Current Year Acquisitions***

We continue to pursue the acquisition of businesses that are accretive to our Solid Waste business and enhance and expand our existing service offerings. During the year ended December 31, 2013, we acquired Greenstar, LLC and substantially all of the assets of RCI Environnement, Inc., which are discussed further below. Additionally, we acquired 14 other businesses related primarily to our collection and energy services operations. Total consideration, inclusive of \$7 million for estimated working capital, for all acquisitions was \$772 million, which included \$714 million in cash paid in 2013, debt of \$22 million and a liability for contingent consideration with a preliminary estimated fair value of \$29 million. The contingent consideration is primarily based on changes in certain recycling commodity indexes and, to a lesser extent, contingent upon achievement by the acquired businesses of certain negotiated goals, which generally include targeted revenues. Our estimated maximum obligations for the contingent cash payments were \$33 million at the dates of acquisition. As of December 31, 2013, we had paid \$4 million of this contingent consideration. In 2013, we also paid \$6 million of contingent consideration associated with acquisitions completed prior to 2013.

The allocation of purchase price for 2013 acquisitions was primarily to "Property and equipment," which had an estimated fair value of \$195 million; "Other intangible assets," which had an estimated fair value of \$232 million; and "Goodwill" of \$327 million. Other intangible assets included \$218 million of customer and supplier relationships, \$5 million of covenants not-to-compete and \$9 million of other intangible assets. Goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and is generally tax deductible.



# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Acquisition of Greenstar, LLC*

On January 31, 2013, we paid \$170 million inclusive of certain adjustments, to acquire Greenstar, LLC (“Greenstar”). Pursuant to the sale and purchase agreement, up to an additional \$40 million is payable to the sellers during the period from 2014 to 2018, of which \$20 million is guaranteed. The remaining \$20 million of this consideration is contingent based on changes in certain recyclable commodity indexes and had a preliminary estimated fair value at closing of \$16 million. Greenstar was an operator of recycling and resource recovery facilities. This acquisition provides the Company’s customers with greater access to recycling solutions, having supplemented our extensive nationwide recycling network with the operations of one of the nation’s largest private recyclers. Since the acquisition date, the Greenstar business has recognized revenues of \$139 million and net losses of \$17 million, which are included in our Consolidated Statement of Operations.

Goodwill of \$122 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned predominantly to our Areas and, to a lesser extent, our recycling brokerage services, as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes. There have been no material adjustments to the purchase price allocation since the date of acquisition.

The following table presents the final allocation of the purchase price for the Greenstar acquisition (in millions):

|                                                              | <u>December 31, 2013</u> |
|--------------------------------------------------------------|--------------------------|
| Accounts and other receivables . . . . .                     | \$ 30                    |
| Parts and supplies . . . . .                                 | 4                        |
| Other current assets . . . . .                               | 2                        |
| Property and equipment . . . . .                             | 58                       |
| Goodwill . . . . .                                           | 122                      |
| Other intangible assets . . . . .                            | 32                       |
| Accounts payable . . . . .                                   | (17)                     |
| Accrued liabilities . . . . .                                | (12)                     |
| Landfill and environmental remediation liabilities . . . . . | (2)                      |
| Current portion of long-term debt . . . . .                  | (4)                      |
| Long-term debt, less current portion . . . . .               | (2)                      |
| Other liabilities . . . . .                                  | (5)                      |
| Total purchase price . . . . .                               | <u>\$206</u>             |

The following table presents the final allocation of the purchase price to intangible assets (amounts in millions, except for amortization periods):

|                                                           | <u>Amount</u> | <u>Weighted Average<br/>Amortization<br/>Periods (in Years)</u> |
|-----------------------------------------------------------|---------------|-----------------------------------------------------------------|
| Supplier relationships . . . . .                          | \$31          | 10.0                                                            |
| Lease agreements . . . . .                                | <u>1</u>      | 8.4                                                             |
| Total intangible assets subject to amortization . . . . . | <u>\$32</u>   | 10.0                                                            |

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Acquisition of RCI Environnement, Inc.*

On July 5, 2013, we paid C\$509 million, or \$481 million, to acquire substantially all of the assets of RCI Environnement, Inc. (“RCI”), the largest waste management company in Quebec, and certain related entities. Total consideration, inclusive of amounts for estimated working capital, was C\$515 million, or \$487 million. RCI provides collection, transfer, recycling and disposal operations throughout the Greater Montreal area. The acquired RCI operations complement and expand the Company’s existing assets and operations in Quebec. Since the acquisition date, the RCI business has recognized revenues of \$87 million and net income of \$7 million, which are included in our Consolidated Statement of Operations.

Goodwill of \$177 million was calculated as the excess of the consideration paid over the net assets recognized and represents the future economic benefits expected to arise from other assets acquired that could not be individually identified and separately recognized. Goodwill has been assigned to our Eastern Canada Area as it is expected to benefit from the synergies of the combination. A portion of goodwill related to this acquisition is deductible for income tax purposes in accordance with Canadian tax law. There have been no material adjustments to the purchase price allocation since the date of acquisition.

The allocation of the purchase price for the RCI acquisition is preliminary and subject to change based on the finalization of our detailed valuation. The following table presents the preliminary allocation of the purchase price for the RCI acquisition (in millions):

|                                                              | <u>December 31, 2013</u> |
|--------------------------------------------------------------|--------------------------|
| Accounts and other receivables . . . . .                     | \$ 32                    |
| Property and equipment . . . . .                             | 117                      |
| Goodwill . . . . .                                           | 177                      |
| Other intangible assets . . . . .                            | 169                      |
| Deferred revenues . . . . .                                  | (4)                      |
| Landfill and environmental remediation liabilities . . . . . | (1)                      |
| Long-term debt, less current portion . . . . .               | <u>(3)</u>               |
| Total purchase price . . . . .                               | <u>\$487</u>             |

The following table presents the preliminary allocation of the purchase price to intangible assets (amounts in millions, except for amortization periods):

|                                                           | <u>Amount</u> | <u>Weighted Average<br/>Amortization<br/>Periods (in Years)</u> |
|-----------------------------------------------------------|---------------|-----------------------------------------------------------------|
| Customer relationships . . . . .                          | \$162         | 15.0                                                            |
| Trade name . . . . .                                      | <u>7</u>      | 5.0                                                             |
| Total intangible assets subject to amortization . . . . . | <u>\$169</u>  | 14.6                                                            |

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Pro Forma Consolidated Results of Operations*

The following pro forma consolidated results of operations have been prepared as if the acquisitions of RCI and Greenstar occurred at January 1, 2012 (in millions, except per share amounts):

|                                                        | Years Ended December 31, |          |
|--------------------------------------------------------|--------------------------|----------|
|                                                        | 2013                     | 2012     |
| Operating revenues .....                               | \$14,085                 | \$14,009 |
| Net income attributable to Waste Management, Inc. .... | 112                      | 803      |
| Basic earnings per common share .....                  | 0.24                     | 1.73     |
| Diluted earnings per common share .....                | 0.24                     | 1.73     |

### *Prior Year Acquisitions*

In 2012, we paid \$94 million for interests in oil and gas producing properties through two transactions. The purchase price was allocated primarily to “Property and equipment.” Additionally, we acquired 32 other businesses related to our Solid Waste business. Total consideration, net of cash acquired, for all acquisitions was \$244 million, which included \$207 million in cash paid in 2012, deposits paid during 2011 for acquisitions completed in 2012 of \$7 million, a liability for additional cash payments with a preliminary estimated fair value of \$22 million, and assumed liabilities of \$8 million. The additional cash payments are contingent upon achievement by the acquired businesses of certain negotiated goals, which generally include targeted revenues. At the dates of acquisition, our estimated maximum obligations for the contingent cash payments were \$57 million. As of December 31, 2012, we had paid \$9 million of this contingent consideration. In 2012, we also paid \$34 million of contingent consideration associated with acquisitions completed prior to 2012.

The allocation of purchase price for 2012 acquisitions was primarily to “Property and equipment,” which had an estimated fair value of \$126 million; “Other intangible assets,” which had an estimated fair value of \$43 million; and “Goodwill” of \$69 million. Other intangible assets included \$34 million of customer contracts and customer relationships and \$9 million of covenants not-to-compete. Goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and is tax deductible.

In 2011, we acquired businesses primarily related to our Solid Waste business, including the acquisition of Oakleaf discussed below. Total consideration, net of cash acquired, for all acquisitions was \$893 million, which included \$839 million in cash payments, a liability for additional cash payments with a preliminary estimated fair value of \$47 million, and assumed liabilities of \$7 million. In 2011, we paid \$8 million in deposits for acquisitions that had not closed as of December 31, 2011. The additional cash payments are contingent upon achievement by the acquired businesses of certain negotiated goals, which generally include targeted revenues. At the dates of acquisition, our estimated maximum obligations for the contingent cash payments were \$49 million. As of December 31, 2011, we had paid \$12 million of this contingent consideration. In 2011, we also paid \$8 million of contingent consideration associated with acquisitions completed in 2010 and 2009.

The allocation of purchase price for 2011 acquisitions was primarily to “Property and equipment,” which had an estimated fair value of \$225 million; “Other intangible assets,” which had an estimated fair value of \$225 million; and “Goodwill” of \$497 million. Other intangible assets included \$166 million of customer contracts and customer relationships, \$29 million of covenants not-to-compete and \$30 million of licenses, permits and other. Goodwill is primarily a result of expected synergies from combining the acquired businesses with our existing operations and is tax deductible, except for the \$327 million recognized from the Oakleaf acquisition, which is not deductible for income tax purposes.

### *Acquisition of Oakleaf Global Holdings*

On July 28, 2011, we paid \$432 million, net of cash received of \$4 million and inclusive of certain adjustments, to acquire Oakleaf. Oakleaf provides outsourced waste and recycling services through a nationwide network of third-party haulers. We acquired Oakleaf to advance our growth and transformation strategies and

# WASTE MANAGEMENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

increase our national accounts customer base while enhancing our ability to provide comprehensive environmental solutions. For the year ended December 31, 2011, subsequent to the acquisition date, Oakleaf recognized revenues of \$265 million and net income of less than \$1 million, which are included in our Consolidated Statement of Operations.

The following pro forma consolidated results of operations have been prepared as if the acquisition of Oakleaf occurred at January 1, 2011 (in millions, except per share amounts):

|                                                           | <u>Year Ended December 31, 2011</u> |
|-----------------------------------------------------------|-------------------------------------|
| Operating revenues . . . . .                              | \$13,693                            |
| Net income attributable to Waste Management, Inc. . . . . | 955                                 |
| Basic earnings per common share . . . . .                 | 2.03                                |
| Diluted earnings per common share . . . . .               | 2.03                                |

### *Divestitures*

The aggregate sales price for divestitures of operations was \$70 million in 2013, \$7 million in 2012 and \$32 million in 2011. The proceeds from these sales for 2013 and 2012 were comprised substantially of cash. For 2011, the proceeds from these sales were comprised primarily of assets acquired in exchanges of assets. We recognized net gains on these divestitures of \$8 million and less than \$1 million in 2013 and 2012, respectively, and net losses on these divestitures of \$1 million in 2011. These divestitures were made as part of our initiative to improve or divest certain underperforming and non-strategic operations. The remaining amounts reported in the Consolidated Statement of Cash Flows generally relate to the sale of fixed assets.

## **20. Variable Interest Entities**

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

### *Consolidated Variable Interest Entities*

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

Income, losses and cash flows of the LLCs are allocated to the members based on their initial equity ownership percentages until Hancock and CIT achieve targeted returns on their initial capital investments in each respective LLC. All allocations made through December 31, 2013 have been based on initial equity ownership percentages as the target returns have not yet been achieved for either LLC. We currently expect Hancock and CIT to achieve their targeted return on LLC II in early 2015 and Hancock to achieve its targeted return on LLC I in mid-2015. After the investors have achieved their targeted returns, the LLC agreements provide that we will receive 80% of the earnings of each of the LLCs and Hancock and CIT will be allocated the remaining 20%.

Our obligations associated with our interests in the LLCs are primarily related to the lease of the facilities. In addition to our minimum lease payment obligations, we are required to make cash payments to the LLCs for differences between fair market rents and our minimum lease payments. These payments are subject to

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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

As of December 31, 2013 and 2012, our Consolidated Balance Sheets included \$284 million and \$296 million, respectively, of net property and equipment associated with the LLCs' waste-to-energy facilities and \$239 million and \$245 million, respectively, in noncontrolling interests associated with Hancock's and CIT's interests in the LLCs. During the years ended December 31, 2013, 2012 and 2011, we recognized reductions in earnings of \$43 million, \$45 million and \$50 million, respectively, for Hancock's and CIT's noncontrolling interests in the LLCs' earnings, which are included in our consolidated net income. The LLCs' earnings relate to the rental income generated from leasing the facilities to our subsidiaries, reduced by depreciation expense. The LLCs' rental income is eliminated in WM's consolidation.

#### ***Significant Unconsolidated Variable Interest Entities***

*Investment in U.K. Waste-to-Energy and Recycling Entity* — In the first quarter of 2012, we formed a U.K. joint venture (the "JV"), together with a commercial waste management company ("Partner"), to develop, construct, operate and maintain a waste-to-energy and recycling facility in England. We own a 50% interest in the JV. The total cost of constructing this facility is expected to be £200 million, or \$331 million based on the exchange rate as of December 31, 2013. The JV will be funded primarily through loans from the joint venture partners and loans under the JV's credit facility agreements with third-party financial institutions. The funds loaned under the credit facility agreements will be used for the development and construction of the facility. We are committed to provide funding of up to £57 million, or \$94 million, based on the exchange rate as of December 31, 2013, of funding to the JV. Our actual commitment may be more or less depending on the actual cost of the facility. Through December 31, 2013, we had funded approximately £11 million, or \$18 million, through loans and less than \$1 million through equity contributions. These amounts are included in our Condensed Consolidated Balance Sheet as long-term "Other assets" and "Investments in unconsolidated entities," respectively. In addition to the funding commitments described above, the JV has entered into certain foreign currency and interest rate derivatives at the direction of the governmental authority that awarded the project to the JV. The impacts of gains or losses incurred on these derivatives will ultimately be remitted to or recoverable from the governmental authority under the terms of the project, and accordingly, are not reflected in our "Equity in net losses of unconsolidated entities". We also have guaranteed the performance of certain management services for the project for which our maximum exposure is not material.

In addition, a wholly-owned subsidiary of WM will be responsible for constructing the waste-to-energy facility for the JV under a fixed-price construction contract. Once the facility is constructed, a majority-owned subsidiary of WM will be responsible for operating and maintaining the facility for the JV under a substantially fixed-price operating and maintenance contract. Under the operating and maintenance contract, we have guaranteed our ability to operate this facility at certain performance levels that we believe are achievable. We also will be jointly responsible, along with our Partner, for the performance of sales and marketing services for the JV through a 50%-owned unconsolidated entity. The fixed-price components of the above mentioned contracts were established based on estimates of expected construction, operation and maintenance costs.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

However, we may not achieve the financial results anticipated and could incur losses if the actual costs differ from the costs established in the contracts. A range of our exposure to potential loss under these contracts cannot presently be estimated.

We determined that we are not the primary beneficiary of the JV, as all major decisions of the JV require either majority vote or unanimous consent of the directors (who are appointed in equal numbers by us and our Partner) or unanimous consent of the two shareholders of the JV. As such, our Partner shares equally in the power to direct the activities of the JV that most significantly impact its economic performance, including approval of the facility construction and operations and maintenance contract terms. Accordingly, we account for this investment under the equity method of accounting and do not consolidate this entity.

*Investment in Refined Coal Facility* — In January 2011, we acquired a noncontrolling interest in a limited liability company established to invest in and manage a refined coal facility. Along with the other equity investor, we support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our initial consideration for this investment consisted of a cash payment of \$48 million. At December 31, 2013 and 2012, our investment balance was \$27 million and \$19 million, respectively, representing our current maximum pre-tax exposure to loss. Under the terms and conditions of the transaction, we do not believe that we have any material exposure to loss. Required capital contributions commenced in the first quarter of 2013 and will continue through the expiration of the tax credits under Section 45 of the Internal Revenue Code, which occurs at the end of 2019. We are only obligated to make future contributions to the extent tax credits are generated. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 9.

*Investment in Low-Income Housing Properties* — In April 2010, we acquired a noncontrolling interest in a limited liability company established to invest in and manage low-income housing properties. We support the operations of the entity in exchange for a pro-rata share of the tax credits it generates. Our target return on the investment is guaranteed and, therefore, we do not believe that we have any material exposure to loss. Our consideration for this investment totaled \$221 million, which was comprised of a \$215 million note payable and an initial cash payment of \$6 million. At December 31, 2013 and 2012, our investment balance was \$129 million and \$153 million, respectively, and our debt balance was \$128 million and \$152 million, respectively. We determined that we are not the primary beneficiary of this entity as we do not have the power to individually direct the entity's activities. Accordingly, we account for this investment under the equity method of accounting and do not consolidate the entity. Additional information related to this investment is discussed in Note 9.

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

We account for the trusts for which we are the sole beneficiary as long-term "Other assets" in our Consolidated Balance Sheet. We reflect our interests in the unrealized gains and losses on available-for-sale securities held by these trusts as a component of "Accumulated other comprehensive income." These trusts had a fair value of \$125 million at both December 31, 2013 and 2012. Our interests in the trusts that have been established for the benefit of both the Company and the host community in which we operate are accounted for as investments in unconsolidated entities and receivables. These amounts are recorded in "Other receivables,"



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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

“Investments in unconsolidated entities” and long-term “Other assets” in our Consolidated Balance Sheet, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$110 million as of both December 31, 2013 and December 31, 2012.

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

#### **21. Segment and Related Information**

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

Following our reorganization, our senior management now evaluates, oversees and manages the financial performance of our Solid Waste subsidiaries through these 17 Areas. The 17 Areas constitute our operating segments and none of the Areas individually meet the quantitative criteria to be a separate reportable segment. We have evaluated the aggregation criteria and concluded that, based on the similarities between our Areas, including the fact that our Solid Waste business is homogenous across geography with the same services offered across the Areas, aggregation of our Areas is appropriate for purposes of presenting our reportable segments. Accordingly, we have aggregated our 17 Areas into three tiers that we believe have similar economic characteristics and future prospects based in large part on a review of the Areas’ income from operations margins. The economic variations experienced by our Areas is attributable to a variety of factors, including regulatory environment of the Area; economic environment of the Area, including level of commercial and industrial activity; population density; service offering mix and disposal logistics, with no one factor being singularly determinative of an Area’s current or future economic performance. As a result of our consideration of economic and other similarities, we have established the following three reportable segments for our Solid Waste business: Tier 1, which is comprised almost exclusively of Areas in the Southern United States; Tier 2, which is comprised predominately of Areas located in the Midwest and Northeast United States; and Tier 3, which encompasses all remaining Areas, including the Northwest and Mid-Atlantic regions of the United States and Eastern Canada. Our Wheelabrator business, which manages waste-to-energy facilities and independent power production plants, continues to be a separate reportable segment as it meets one of the quantitative disclosure thresholds. The operating segments not evaluated and overseen through the 17 Areas and Wheelabrator, including the Oakleaf operations we acquired in 2011, are presented herein as “Other” as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Summarized financial information concerning our reportable segments for the respective years ended December 31 is shown in the following table (in millions):

|                              | <u>Gross<br/>Operating<br/>Revenues</u> | <u>Intercompany<br/>Operating<br/>Revenues(c)</u> | <u>Net<br/>Operating<br/>Revenues</u> | <u>Income<br/>from<br/>Operations<br/>(d),(e)</u> | <u>Depreciation<br/>and<br/>Amortization</u> | <u>Capital<br/>Expenditures<br/>(f)</u> | <u>Total<br/>Assets<br/>(g),(h)</u> |
|------------------------------|-----------------------------------------|---------------------------------------------------|---------------------------------------|---------------------------------------------------|----------------------------------------------|-----------------------------------------|-------------------------------------|
| <b>2013</b>                  |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Solid Waste:                 |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Tier 1 .....                 | \$ 3,487                                | \$ (553)                                          | \$ 2,934                              | \$ 852                                            | \$ 277                                       | \$ 217                                  | \$ 3,682                            |
| Tier 2 .....                 | 6,438                                   | (1,202)                                           | 5,236                                 | 1,291                                             | 522                                          | 526                                     | 8,572                               |
| Tier 3 .....                 | 3,552                                   | (569)                                             | 2,983                                 | 291                                               | 279                                          | 258                                     | 5,288                               |
| Wheelabrator .....           | 845                                     | (112)                                             | 733                                   | (517)                                             | 61                                           | 17                                      | 2,037                               |
| Other(a) .....               | <u>2,185</u>                            | <u>(88)</u>                                       | <u>2,097</u>                          | <u>(171)</u>                                      | <u>122</u>                                   | <u>126</u>                              | <u>2,177</u>                        |
|                              | 16,507                                  | (2,524)                                           | 13,983                                | 1,746                                             | 1,261                                        | 1,144                                   | 21,756                              |
| Corporate and Other (b) .... | <u>—</u>                                | <u>—</u>                                          | <u>—</u>                              | <u>(667)</u>                                      | <u>72</u>                                    | <u>123</u>                              | <u>1,459</u>                        |
| Total .....                  | <u>\$16,507</u>                         | <u>\$(2,524)</u>                                  | <u>\$13,983</u>                       | <u>\$1,079</u>                                    | <u>\$1,333</u>                               | <u>\$1,267</u>                          | <u>\$23,215</u>                     |
| <b>2012</b>                  |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Solid Waste:                 |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Tier 1 .....                 | \$ 3,370                                | \$ (521)                                          | \$ 2,849                              | \$ 851                                            | \$ 273                                       | \$ 242                                  | \$ 3,664                            |
| Tier 2 .....                 | 6,273                                   | (1,096)                                           | 5,177                                 | 1,270                                             | 512                                          | 511                                     | 8,394                               |
| Tier 3 .....                 | 3,413                                   | (523)                                             | 2,890                                 | 504                                               | 259                                          | 271                                     | 5,088                               |
| Wheelabrator .....           | 846                                     | (123)                                             | 723                                   | 113                                               | 69                                           | 36                                      | 2,605                               |
| Other (a) .....              | <u>2,106</u>                            | <u>(96)</u>                                       | <u>2,010</u>                          | <u>(242)</u>                                      | <u>111</u>                                   | <u>239</u>                              | <u>2,495</u>                        |
|                              | 16,008                                  | (2,359)                                           | 13,649                                | 2,496                                             | 1,224                                        | 1,299                                   | 22,246                              |
| Corporate and Other (b) .... | <u>—</u>                                | <u>—</u>                                          | <u>—</u>                              | <u>(645)</u>                                      | <u>73</u>                                    | <u>139</u>                              | <u>1,551</u>                        |
| Total .....                  | <u>\$16,008</u>                         | <u>\$(2,359)</u>                                  | <u>\$13,649</u>                       | <u>\$1,851</u>                                    | <u>\$1,297</u>                               | <u>\$1,438</u>                          | <u>\$23,797</u>                     |
| <b>2011</b>                  |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Solid Waste:                 |                                         |                                                   |                                       |                                                   |                                              |                                         |                                     |
| Tier 1 .....                 | \$ 3,337                                | \$ (425)                                          | \$ 2,912                              | \$ 859                                            | \$ 268                                       | \$ 215                                  | \$ 3,618                            |
| Tier 2 .....                 | 6,332                                   | (980)                                             | 5,352                                 | 1,237                                             | 492                                          | 526                                     | 8,337                               |
| Tier 3 .....                 | 3,329                                   | (444)                                             | 2,885                                 | 512                                               | 261                                          | 234                                     | 4,987                               |
| Wheelabrator .....           | 877                                     | (121)                                             | 756                                   | 172                                               | 67                                           | 35                                      | 2,542                               |
| Other (a) .....              | <u>1,534</u>                            | <u>(61)</u>                                       | <u>1,473</u>                          | <u>(164)</u>                                      | <u>77</u>                                    | <u>223</u>                              | <u>2,195</u>                        |
|                              | 15,409                                  | (2,031)                                           | 13,378                                | 2,616                                             | 1,165                                        | 1,233                                   | 21,679                              |
| Corporate and Other (b) .... | <u>—</u>                                | <u>—</u>                                          | <u>—</u>                              | <u>(588)</u>                                      | <u>64</u>                                    | <u>129</u>                              | <u>1,562</u>                        |
| Total .....                  | <u>\$15,409</u>                         | <u>\$(2,031)</u>                                  | <u>\$13,378</u>                       | <u>\$2,028</u>                                    | <u>\$1,229</u>                               | <u>\$1,362</u>                          | <u>\$23,241</u>                     |

- (a) Our “Other” net operating revenues and “Other” income from operations include (i) the effects of those elements of our in-plant services, landfill gas-to-energy operations, and third-party subcontract and administration revenues managed by our Sustainability Services and Renewable Energy organizations, that are not included with the operations of our reportable segments; (ii) our recycling brokerage and electronic recycling services; and (iii) the impacts of investments that we are making in expanded service offerings,

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

such as portable self-storage, fluorescent lamp recycling and oil and gas producing properties. In addition, our “Other” income from operations reflects the impacts of non-operating entities that provide financial assurance and self-insurance support for the segments or financing for our Canadian operations.

- (b) Corporate operating results reflect the costs incurred for various support services that are not allocated to our reportable segments. These support services include, among other things, treasury, legal, information technology, tax, insurance, centralized service center processes, other administrative functions and the maintenance of our closed landfills. Income from operations for “Corporate and other” also includes costs associated with our long-term incentive program and any administrative expenses or revisions to our estimated obligations associated with divested operations.
- (c) 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.
- (d) For those items included in the determination of income from operations, the accounting policies of the segments are the same as those described in Note 3.
- (e) The income from operations provided by our Solid Waste business is generally indicative of the margins provided by our collection, landfill, transfer and recycling businesses. From time to time the operating results of our reportable segments are significantly affected by certain transactions or events that management believes are not indicative or representative of our results. In 2013, we recognized \$981 million of impairment charges, the most significant of which impacted our Tier 3 and Wheelabrator segments by \$253 million and \$627 million, respectively. Refer to Note 12 and Note 13 for an explanation of certain other transactions and events affecting our operating results.
- (f) Includes non-cash items. Capital expenditures are reported in our reportable segments at the time they are recorded within the segments’ property, plant and equipment balances and, therefore, may include amounts that have been accrued but not yet paid.
- (g) The reconciliation of total assets reported above to “Total assets” in the Consolidated Balance Sheet is as follows (in millions):

|                                                                | December 31,    |                 |                 |
|----------------------------------------------------------------|-----------------|-----------------|-----------------|
|                                                                | 2013            | 2012            | 2011            |
| Total assets, as reported above . . . . .                      | \$23,215        | \$23,797        | \$23,241        |
| Elimination of intercompany investments and advances . . . . . | (612)           | (700)           | (672)           |
| Total assets, per Consolidated Balance Sheet . . . . .         | <u>\$22,603</u> | <u>\$23,097</u> | <u>\$22,569</u> |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- (h) Goodwill is included within each segment's total assets. For segment reporting purposes, our material recovery facilities and secondary processing facilities are included as a component of their respective Areas and our recycling brokerage business and electronics recycling services are included as part of our "Other" operations. As discussed in Note 19, the goodwill associated with our acquisition of Oakleaf and Greenstar, has been assigned to our Areas and to a lesser extent "Other". Our acquisition of RCI has been assigned to our Eastern Canada Area, which is included in Tier 3. The following table presents changes in goodwill during 2012 and 2013 by reportable segment (in millions):

|                                                      | <b>Solid Waste</b> |                |                | <b>Wheelabrator</b> | <b>Other</b> | <b>Total</b>   |
|------------------------------------------------------|--------------------|----------------|----------------|---------------------|--------------|----------------|
|                                                      | <b>Tier 1</b>      | <b>Tier 2</b>  | <b>Tier 3</b>  |                     |              |                |
| Balance, December 31, 2011 .....                     | \$1,166            | \$2,806        | \$1,359        | \$ 788              | \$ 96        | \$6,215        |
| Acquired goodwill .....                              | 18                 | 22             | 9              | —                   | 20           | 69             |
| Divested goodwill, net of assets held-for-sale ..... | —                  | —              | (3)            | —                   | —            | (3)            |
| Impairments .....                                    | —                  | —              | —              | —                   | (4)          | (4)            |
| Translation and other adjustments .....              | <u>2</u>           | <u>—</u>       | <u>9</u>       | <u>—</u>            | <u>3</u>     | <u>14</u>      |
| Balance, December 31, 2012 .....                     | \$1,186            | \$2,828        | \$1,374        | \$ 788              | \$115        | \$6,291        |
| Acquired goodwill .....                              | 41                 | 56             | 210            | —                   | 20           | 327            |
| Divested goodwill, net of assets held-for-sale ..... | (1)                | (2)            | (9)            | —                   | —            | (12)           |
| Impairments .....                                    | —                  | —              | (10)           | (483)               | (16)         | (509)          |
| Translation and other adjustments .....              | <u>(5)</u>         | <u>—</u>       | <u>(18)</u>    | <u>—</u>            | <u>(4)</u>   | <u>(27)</u>    |
| Balance, December 31, 2013 .....                     | <u>\$1,221</u>     | <u>\$2,882</u> | <u>\$1,547</u> | <u>\$ 305</u>       | <u>\$115</u> | <u>\$6,070</u> |

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

|                          | <b>Years Ended December 31,</b> |                 |                 |
|--------------------------|---------------------------------|-----------------|-----------------|
|                          | <b>2013</b>                     | <b>2012</b>     | <b>2011</b>     |
| Commercial .....         | \$ 3,423                        | \$ 3,417        | \$ 3,499        |
| Residential .....        | 2,608                           | 2,584           | 2,609           |
| Industrial .....         | 2,209                           | 2,129           | 2,052           |
| Other .....              | <u>273</u>                      | <u>275</u>      | <u>246</u>      |
| Total collection .....   | 8,513                           | 8,405           | 8,406           |
| Landfill .....           | 2,790                           | 2,685           | 2,611           |
| Transfer .....           | 1,329                           | 1,296           | 1,280           |
| Wheelabrator .....       | 845                             | 846             | 877             |
| Recycling .....          | 1,447                           | 1,360           | 1,580           |
| Other(a) .....           | 1,583                           | 1,416           | 655             |
| Intercompany(b) .....    | <u>(2,524)</u>                  | <u>(2,359)</u>  | <u>(2,031)</u>  |
| Operating revenues ..... | <u>\$13,983</u>                 | <u>\$13,649</u> | <u>\$13,378</u> |

- (a) The "Other" line of business includes Oakleaf, landfill gas-to-energy operations, Port-O-Let® services, portable self-storage, fluorescent lamp recycling, and oil and gas producing properties.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (b) Intercompany revenues between lines of business are eliminated within the Consolidated Financial Statements included herein.

Net operating revenues relating to operations in the United States and Puerto Rico, as well as Canada are as follows (in millions):

|                                     | Years Ended December 31, |                 |                 |
|-------------------------------------|--------------------------|-----------------|-----------------|
|                                     | 2013                     | 2012            | 2011            |
| United States and Puerto Rico ..... | \$13,054                 | \$12,812        | \$12,578        |
| Canada .....                        | 929                      | 837             | 800             |
| Total .....                         | <u>\$13,983</u>          | <u>\$13,649</u> | <u>\$13,378</u> |

Property and equipment (net) relating to operations in the United States and Puerto Rico, as well as Canada are as follows (in millions):

|                                     | December 31,    |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|
|                                     | 2013            | 2012            | 2011            |
| United States and Puerto Rico ..... | \$11,198        | \$11,293        | \$10,948        |
| Canada .....                        | 1,146           | 1,358           | 1,294           |
| Total .....                         | <u>\$12,344</u> | <u>\$12,651</u> | <u>\$12,242</u> |

## 22. Quarterly Financial Data (Unaudited)

The following table summarizes the unaudited quarterly results of operations for 2013 and 2012 (in millions, except per share amounts):

|                                                                  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|------------------------------------------------------------------|------------------|-------------------|------------------|-------------------|
| <b>2013</b>                                                      |                  |                   |                  |                   |
| Operating revenues .....                                         | \$3,336          | \$3,526           | \$3,621          | \$3,500           |
| Income (loss) from operations .....                              | 402              | 510               | 577              | (410)             |
| Consolidated net income (loss) .....                             | 176              | 256               | 297              | (599)             |
| Net income (loss) attributable to Waste Management,<br>Inc. .... | 168              | 244               | 291              | (605)             |
| Basic earnings (loss) common share .....                         | 0.36             | 0.52              | 0.62             | (1.29)            |
| Diluted earnings (loss) common share .....                       | 0.36             | 0.52              | 0.62             | (1.29)            |
| <b>2012</b>                                                      |                  |                   |                  |                   |
| Operating revenues .....                                         | \$3,295          | \$3,459           | \$3,461          | \$3,434           |
| Income from operations .....                                     | 401              | 466               | 500              | 484               |
| Consolidated net income .....                                    | 183              | 219               | 223              | 235               |
| Net income attributable to Waste Management, Inc. ....           | 171              | 208               | 214              | 224               |
| Basic earnings per common share .....                            | 0.37             | 0.45              | 0.46             | 0.48              |
| Diluted earnings per common share .....                          | 0.37             | 0.45              | 0.46             | 0.48              |

Basic and diluted earnings per common share for each of the quarters presented above is based on the respective weighted average number of common and dilutive potential common shares outstanding for each quarter and the sum of the quarters may not necessarily be equal to the full year basic and diluted earnings per common share amounts.

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Our operating revenues normally tend to be somewhat higher in the summer months, primarily due to the higher volume of construction and demolition waste. The volumes of industrial and residential waste in certain regions where we operate also tend to increase during the summer months. Our second and third quarter revenues and results of operations typically reflect these seasonal trends. The operating results of our first quarter also often reflect higher repair and maintenance expenses because we rely on the slower winter months, when waste flows are generally lower, to perform scheduled maintenance at our waste-to-energy facilities. Additionally, from time to time, our operating results are significantly affected by certain transactions or events that management believes are not indicative or representative of our results. The following significant items have affected the comparison of our operating results during the periods indicated:

#### *First Quarter 2013*

- Net income was negatively impacted by pre-tax impairment charges aggregating \$15 million attributable to investments in waste diversion technology companies and goodwill related to certain of our operations. These items had a negative impact of \$0.03 on our diluted earnings per share.
- Income from operations was negatively impacted by \$8 million of pre-tax restructuring charges related to our acquisition of Greenstar and our July 2012 restructuring. These items had a negative impact of \$0.01 on our diluted earnings per share.
- Income from operations was negatively impacted by bad debt expense associated with collection issues in our Puerto Rico operations, which negatively affected our diluted earnings per share by \$0.01.

#### *Second Quarter 2013*

- Income from operations was negatively impacted by the recognition of pre-tax impairment and restructuring charges primarily related to an impairment of a waste-to-energy facility as result of projected operating losses partially offset by gains on divestitures. These items had a negative impact of \$0.02 on our diluted earnings per share.
- Income from operations was impacted by a favorable adjustment to “Operating” expenses due to an increase in the risk-free discount rate used to measure our environmental remediation liabilities and recovery assets, which positively affected our diluted earnings per share by \$0.01.

#### *Third Quarter 2013*

- Net income was negatively impacted by the recognition of pre-tax charges aggregating \$23 million comprised of (i) \$18 million related to impairments, primarily attributable to an investment in a majority-owned waste diversion technology company and (ii) \$5 million of losses on divestitures, primarily related to oil and gas producing properties. These items had a negative impact of \$0.02 on our diluted earnings per share.
- Income from operations was negatively impacted by the recognition of pre-tax charges aggregating \$8 million primarily associated with the partial withdrawal from an underfunded multiemployer pension plan and, to a lesser extent, other restructuring charges. These items had a negative impact of \$0.01 on our diluted earnings per share.
- Income from operations was positively impacted as a result of the collection of certain fully reserved receivables related to our Puerto Rico operations, which positively affected our diluted earnings per share by \$0.01.

#### *Fourth Quarter 2013*

- Net income was negatively impacted by the recognition of net pre-tax charges aggregating \$1 billion comprised of (i) a \$483 million charge to impair goodwill associated with our Wheelabrator business; (ii) \$262 million of charges to impair certain landfills, primarily in our Eastern Canada Area; (iii) \$130

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

million of charges to write down the carrying value of three waste-to-energy facilities; (iv) \$61 million of charges attributable to investments in waste diversion technology companies; (v) \$31 million of charges to impair various recycling assets; (vi) a \$15 million charge to write down the carrying value of an oil and gas property to its estimated fair value and (vii) other charges to impair goodwill and write down the carrying value of assets to their estimated fair values related to certain of our operations, partially offset by gains on divestitures. See Notes 6 and 13 for additional information. These items had a negative impact of \$1.84 on our diluted earnings per share.

- Income from operations was negatively impacted by pre-tax restructuring charges of \$5 million which negatively affected our diluted earnings per share by \$0.01.
- Income from operations was positively impacted by net adjustments associated with changes in our expectations for the timing and cost of future final capping, closure and post-closure of fully utilized airspace, and by an increase in the risk-free discount rate used to measure environmental remediation liabilities and recovery assets. These items positively affected our diluted earnings per share by \$0.02.

#### *First Quarter 2012*

- Income from operations was negatively impacted by the recognition of pre-tax restructuring charges and integration costs associated with our acquisition of Oakleaf. These charges had a negative impact of \$0.01 on our diluted earnings per share.

#### *Second Quarter 2012*

- Income from operations was negatively impacted by the recognition of pre-tax impairment charges of \$34 million, related primarily to two facilities in our medical waste services business. These impairment charges had an unfavorable impact of \$0.04 on our diluted earnings per share.
- Income from operations was negatively impacted by the recognition of a pre-tax noncash charge of \$10 million associated with the partial withdrawal from an underfunded multiemployer pension plan. This charge reduced diluted earnings per share by \$0.01.
- Income from operations was negatively impacted by pre-tax costs aggregating \$5 million from a combination of restructuring charges and integration costs associated with our acquisition of Oakleaf. These items negatively affected our diluted earnings per share by \$0.01.

#### *Third Quarter 2012*

- Income from operations was negatively impacted by pre-tax costs aggregating \$47 million primarily related to our July 2012 restructuring as well as integration costs associated with our acquisition of Oakleaf. These items had a negative impact of \$0.06 on our diluted earnings per share.
- Net income was negatively impacted by the recognition of pre-tax impairment charges of \$45 million, primarily associated with certain of our investments in unconsolidated entities and related assets. These impairment charges had an unfavorable impact of \$0.08 on our diluted earnings per share.
- Income from operations was negatively impacted by the recognition of a pre-tax charge of \$6 million resulting from a labor union dispute in the Pacific Northwest Area, which had a negative impact of \$0.01 on our diluted earnings per share.

#### *Fourth Quarter 2012*

- Income from operations was negatively impacted by pre-tax costs aggregating \$25 million primarily related to our July 2012 restructuring as well as integration costs associated with our acquisition of Oakleaf. These items had a negative impact of \$0.03 on our diluted earnings per share.

## WASTE MANAGEMENT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- Income from operations was negatively impacted by the recognition of pre-tax impairment charges of \$30 million, primarily attributable to (i) \$13 million of charges related to two facilities in our medical waste services business as a result of projected operating losses at each of these facilities; (ii) \$6 million of charges related to investments in waste diversion technology companies; (iii) \$5 million for the impairment of a facility not currently used in our operations and (iv) \$4 million of charges to impair goodwill related to certain of our operations. These impairment charges had an unfavorable impact of \$0.05 on our diluted earnings per share.
- Income from operations was negatively impacted by pre-tax charges aggregating \$10 million related to an accrual for legal reserves and the impact of a decrease in the risk-free discount rate used to measure our environmental remediation liabilities. These items had a negative impact of \$0.01 on our diluted earnings per share.

#### **23. Condensed Consolidating Financial Statements**

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



**WASTE MANAGEMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**

**December 31, 2013**

|                                                      | <u>WM</u>       | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------------------------------------------|-----------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                        |                 |                        |                                       |                     |                     |
| Current assets:                                      |                 |                        |                                       |                     |                     |
| Cash and cash equivalents .....                      | \$ —            | \$ —                   | \$ 58                                 | \$ —                | \$ 58               |
| Other current assets .....                           | <u>—</u>        | <u>6</u>               | <u>2,435</u>                          | <u>—</u>            | <u>2,441</u>        |
|                                                      | —               | 6                      | 2,493                                 | —                   | 2,499               |
| Property and equipment, net .....                    | —               | —                      | 12,344                                | —                   | 12,344              |
| Investments in and advances to affiliates ...        | 12,133          | 16,246                 | 4,268                                 | (32,647)            | —                   |
| Other assets .....                                   | <u>42</u>       | <u>12</u>              | <u>7,706</u>                          | <u>—</u>            | <u>7,760</u>        |
| Total assets .....                                   | <u>\$12,175</u> | <u>\$16,264</u>        | <u>\$26,811</u>                       | <u>\$(32,647)</u>   | <u>\$22,603</u>     |
| <b>LIABILITIES AND EQUITY</b>                        |                 |                        |                                       |                     |                     |
| Current liabilities:                                 |                 |                        |                                       |                     |                     |
| Current portion of long-term debt .....              | \$ 587          | \$ —                   | \$ 139                                | \$ —                | \$ 726              |
| Accounts payable and other current liabilities ..... | <u>109</u>      | <u>13</u>              | <u>2,166</u>                          | <u>—</u>            | <u>2,288</u>        |
|                                                      | 696             | 13                     | 2,305                                 | —                   | 3,014               |
| Long-term debt, less current portion .....           | 5,772           | 449                    | 3,279                                 | —                   | 9,500               |
| Other liabilities .....                              | <u>—</u>        | <u>—</u>               | <u>4,087</u>                          | <u>—</u>            | <u>4,087</u>        |
| Total liabilities .....                              | 6,468           | 462                    | 9,671                                 | —                   | 16,601              |
| Equity:                                              |                 |                        |                                       |                     |                     |
| Stockholders' equity .....                           | 5,707           | 15,802                 | 16,845                                | (32,647)            | 5,707               |
| Noncontrolling interests .....                       | <u>—</u>        | <u>—</u>               | <u>295</u>                            | <u>—</u>            | <u>295</u>          |
|                                                      | <u>5,707</u>    | <u>15,802</u>          | <u>17,140</u>                         | <u>(32,647)</u>     | <u>6,002</u>        |
| Total liabilities and equity .....                   | <u>\$12,175</u> | <u>\$16,264</u>        | <u>\$26,811</u>                       | <u>\$(32,647)</u>   | <u>\$22,603</u>     |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)**

**December 31, 2012**

|                                                          | <u>WM</u>       | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------------------------------|-----------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                            |                 |                        |                                       |                     |                     |
| Current assets:                                          |                 |                        |                                       |                     |                     |
| Cash and cash equivalents . . . . .                      | \$ 60           | \$ —                   | \$ 134                                | \$ —                | \$ 194              |
| Other current assets . . . . .                           | <u>—</u>        | <u>7</u>               | <u>2,222</u>                          | <u>—</u>            | <u>2,229</u>        |
|                                                          | 60              | 7                      | 2,356                                 | —                   | 2,423               |
| Property and equipment, net . . . . .                    | —               | —                      | 12,651                                | —                   | 12,651              |
| Investments in and advances to affiliates (a) . . . .    | 12,725          | 15,932                 | 3,398                                 | (32,055)            | —                   |
| Other assets . . . . .                                   | <u>45</u>       | <u>12</u>              | <u>7,966</u>                          | <u>—</u>            | <u>8,023</u>        |
| Total assets . . . . .                                   | <u>\$12,830</u> | <u>\$15,951</u>        | <u>\$26,371</u>                       | <u>\$(32,055)</u>   | <u>\$23,097</u>     |
| <b>LIABILITIES AND EQUITY</b>                            |                 |                        |                                       |                     |                     |
| Current liabilities:                                     |                 |                        |                                       |                     |                     |
| Current portion of long-term debt . . . . .              | \$ 400          | \$ —                   | \$ 343                                | \$ —                | \$ 743              |
| Accounts payable and other current liabilities . . . . . | <u>77</u>       | <u>13</u>              | <u>2,203</u>                          | <u>—</u>            | <u>2,293</u>        |
|                                                          | 477             | 13                     | 2,546                                 | —                   | 3,036               |
| Long-term debt, less current portion . . . . .           | 5,957           | 449                    | 2,767                                 | —                   | 9,173               |
| Other liabilities . . . . .                              | <u>42</u>       | <u>—</u>               | <u>4,171</u>                          | <u>—</u>            | <u>4,213</u>        |
| Total liabilities . . . . .                              | 6,476           | 462                    | 9,484                                 | —                   | 16,422              |
| Equity:                                                  |                 |                        |                                       |                     |                     |
| Stockholders' equity (a) . . . . .                       | 6,354           | 15,489                 | 16,566                                | (32,055)            | 6,354               |
| Noncontrolling interests . . . . .                       | <u>—</u>        | <u>—</u>               | <u>321</u>                            | <u>—</u>            | <u>321</u>          |
|                                                          | 6,354           | 15,489                 | 16,887                                | (32,055)            | 6,675               |
| Total liabilities and equity . . . . .                   | <u>\$12,830</u> | <u>\$15,951</u>        | <u>\$26,371</u>                       | <u>\$(32,055)</u>   | <u>\$23,097</u>     |

- (a) In conjunction with the preparation of our 2013 Condensed Consolidating Financial Statements, we identified corrections associated with the computation of the amounts reported as WM Holdings' "Investments in and advances to affiliates" and "Stockholders' equity" previously reported in the 2012 Condensed Consolidating Balance Sheet. Accordingly, the 2012 Condensed Consolidating Balance Sheet included herein has been restated.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

|                                                                        | <u>WM</u>     | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------------------------------------------------------------|---------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2013</b>                                    |               |                        |                                       |                     |                     |
| Operating revenues . . . . .                                           | \$ —          | \$ —                   | \$13,983                              | \$ —                | \$13,983            |
| Costs and expenses (b) . . . . .                                       | —             | —                      | 12,904                                | —                   | 12,904              |
| Income from operations . . . . .                                       | —             | —                      | 1,079                                 | —                   | 1,079               |
| Other income (expense):                                                |               |                        |                                       |                     |                     |
| Interest income (expense) . . . . .                                    | (355)         | (32)                   | (90)                                  | —                   | (477)               |
| Equity in earnings of subsidiaries, net of<br>taxes . . . . .          | 313           | 332                    | —                                     | (645)               | —                   |
| Other, net . . . . .                                                   | —             | —                      | (108)                                 | —                   | (108)               |
|                                                                        | <u>(42)</u>   | <u>300</u>             | <u>(198)</u>                          | <u>(645)</u>        | <u>(585)</u>        |
| Income before income taxes . . . . .                                   | (42)          | 300                    | 881                                   | (645)               | 494                 |
| Provision for (benefit from) income taxes . . . . .                    | <u>(140)</u>  | <u>(13)</u>            | <u>517</u>                            | <u>—</u>            | <u>364</u>          |
| Consolidated net income . . . . .                                      | 98            | 313                    | 364                                   | (645)               | 130                 |
| Less: Net income attributable to noncontrolling<br>interests . . . . . | —             | —                      | 32                                    | —                   | 32                  |
| Net income attributable to Waste Management,<br>Inc. . . . .           | <u>\$ 98</u>  | <u>\$ 313</u>          | <u>\$ 332</u>                         | <u>\$ (645)</u>     | <u>\$ 98</u>        |
| <b>Year Ended December 31, 2012</b>                                    |               |                        |                                       |                     |                     |
| Operating revenues . . . . .                                           | \$ —          | \$ —                   | \$13,649                              | \$ —                | \$13,649            |
| Costs and expenses (b) . . . . .                                       | —             | (7)                    | 11,805                                | —                   | 11,798              |
| Income from operations . . . . .                                       | —             | 7                      | 1,844                                 | —                   | 1,851               |
| Other income (expense):                                                |               |                        |                                       |                     |                     |
| Interest income (expense) . . . . .                                    | (358)         | (32)                   | (94)                                  | —                   | (484)               |
| Equity in earnings of subsidiaries, net of<br>taxes . . . . .          | 1,034         | 1,046                  | —                                     | (2,080)             | —                   |
| Other, net . . . . .                                                   | —             | —                      | (64)                                  | —                   | (64)                |
|                                                                        | <u>676</u>    | <u>1,014</u>           | <u>(158)</u>                          | <u>(2,080)</u>      | <u>(548)</u>        |
| Income before income taxes . . . . .                                   | 676           | 1,021                  | 1,686                                 | (2,080)             | 1,303               |
| Provision for (benefit from) income taxes . . . . .                    | <u>(141)</u>  | <u>(13)</u>            | <u>597</u>                            | <u>—</u>            | <u>443</u>          |
| Consolidated net income . . . . .                                      | 817           | 1,034                  | 1,089                                 | (2,080)             | 860                 |
| Less: Net income attributable to noncontrolling<br>interests . . . . . | —             | —                      | 43                                    | —                   | 43                  |
| Net income attributable to Waste Management,<br>Inc. . . . .           | <u>\$ 817</u> | <u>\$1,034</u>         | <u>\$ 1,046</u>                       | <u>\$(2,080)</u>    | <u>\$ 817</u>       |

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)**

|                                                                    | <u>WM</u>     | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--------------------------------------------------------------------|---------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2011</b>                                |               |                        |                                       |                     |                     |
| Operating revenues .....                                           | \$ —          | \$ —                   | \$13,378                              | \$ —                | \$13,378            |
| Costs and expenses (b) .....                                       | <u>—</u>      | <u>—</u>               | <u>11,350</u>                         | <u>—</u>            | <u>11,350</u>       |
| Income from operations .....                                       | <u>—</u>      | <u>—</u>               | <u>2,028</u>                          | <u>—</u>            | <u>2,028</u>        |
| Other income (expense):                                            |               |                        |                                       |                     |                     |
| Interest income (expense) .....                                    | (342)         | (33)                   | (98)                                  | —                   | (473)               |
| Equity in earnings of subsidiaries, net of<br>taxes .....          | 1,168         | 1,188                  | —                                     | (2,356)             | —                   |
| Other, net .....                                                   | <u>—</u>      | <u>—</u>               | <u>(35)</u>                           | <u>—</u>            | <u>(35)</u>         |
|                                                                    | <u>826</u>    | <u>1,155</u>           | <u>(133)</u>                          | <u>(2,356)</u>      | <u>(508)</u>        |
| Income before income taxes .....                                   | 826           | 1,155                  | 1,895                                 | (2,356)             | 1,520               |
| Provision for (benefit from) income taxes .....                    | <u>(135)</u>  | <u>(13)</u>            | <u>659</u>                            | <u>—</u>            | <u>511</u>          |
| Consolidated net income .....                                      | 961           | 1,168                  | 1,236                                 | (2,356)             | 1,009               |
| Less: Net income attributable to noncontrolling<br>interests ..... | <u>—</u>      | <u>—</u>               | <u>48</u>                             | <u>—</u>            | <u>48</u>           |
| Net income attributable to Waste Management,<br>Inc. ....          | <u>\$ 961</u> | <u>\$1,168</u>         | <u>\$ 1,188</u>                       | <u>\$(2,356)</u>    | <u>\$ 961</u>       |

(b) Includes “Goodwill impairments” and “(Income) expense from divestitures, asset impairments (other than goodwill) and unusual items” as reported in our Consolidated Statement of Operations.

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME**

|                                                                              | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------------------------------------------------------------------|--------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2013</b>                                          |              |                        |                                       |                     |                     |
| Comprehensive income .....                                                   | \$112        | \$ 313                 | \$ 311                                | \$ (645)            | \$ 91               |
| Less: Comprehensive income attributable to<br>noncontrolling interests ..... | <u>—</u>     | <u>—</u>               | <u>32</u>                             | <u>—</u>            | <u>32</u>           |
| Comprehensive income attributable to Waste<br>Management, Inc. ....          | <u>\$112</u> | <u>\$ 313</u>          | <u>\$ 279</u>                         | <u>\$ (645)</u>     | <u>\$ 59</u>        |
| <b>Year Ended December 31, 2012</b>                                          |              |                        |                                       |                     |                     |
| Comprehensive income .....                                                   | \$807        | \$1,034                | \$1,120                               | \$(2,080)           | \$881               |
| Less: Comprehensive income attributable to<br>noncontrolling interests ..... | <u>—</u>     | <u>—</u>               | <u>43</u>                             | <u>—</u>            | <u>43</u>           |
| Comprehensive income attributable to Waste<br>Management, Inc. ....          | <u>\$807</u> | <u>\$1,034</u>         | <u>\$1,077</u>                        | <u>\$(2,080)</u>    | <u>\$838</u>        |
| <b>Year Ended December 31, 2011</b>                                          |              |                        |                                       |                     |                     |
| Comprehensive income .....                                                   | \$929        | \$1,168                | \$1,210                               | \$(2,356)           | \$951               |
| Less: Comprehensive income attributable to<br>noncontrolling interests ..... | <u>—</u>     | <u>—</u>               | <u>48</u>                             | <u>—</u>            | <u>48</u>           |
| Comprehensive income attributable to Waste<br>Management, Inc. ....          | <u>\$929</u> | <u>\$1,168</u>         | <u>\$1,162</u>                        | <u>\$(2,356)</u>    | <u>\$903</u>        |

**WASTE MANAGEMENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

|                                                                                                        | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--------------------------------------------------------------------------------------------------------|--------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2013</b>                                                                    |              |                        |                                       |                     |                     |
| Cash flows from operating activities:                                                                  |              |                        |                                       |                     |                     |
| Consolidated net income . . . . .                                                                      | \$ 98        | \$ 313                 | \$ 364                                | \$(645)             | \$ 130              |
| Equity in earnings of subsidiaries, net of<br>taxes . . . . .                                          | (313)        | (332)                  | —                                     | 645                 | —                   |
| Other adjustments . . . . .                                                                            | (2)          | —                      | 2,327                                 | —                   | 2,325               |
| Net cash provided by (used in) operating<br>activities . . . . .                                       | <u>(217)</u> | <u>(19)</u>            | <u>2,691</u>                          | <u>—</u>            | <u>2,455</u>        |
| Cash flows from investing activities:                                                                  |              |                        |                                       |                     |                     |
| Acquisition of businesses, net of cash<br>acquired . . . . .                                           | —            | —                      | (724)                                 | —                   | (724)               |
| Capital expenditures . . . . .                                                                         | —            | —                      | (1,271)                               | —                   | (1,271)             |
| Proceeds from divestitures of businesses (net of<br>cash divested) and other sales of assets . . . . . | —            | —                      | 138                                   | —                   | 138                 |
| Net receipts from restricted trust and escrow<br>accounts and other, net . . . . .                     | —            | —                      | (43)                                  | —                   | (43)                |
| Net cash provided by (used in) investing<br>activities . . . . .                                       | <u>—</u>     | <u>—</u>               | <u>(1,900)</u>                        | <u>—</u>            | <u>(1,900)</u>      |
| Cash flows from financing activities:                                                                  |              |                        |                                       |                     |                     |
| New borrowings . . . . .                                                                               | 325          | —                      | 982                                   | —                   | 1,307               |
| Debt repayments . . . . .                                                                              | (305)        | —                      | (847)                                 | —                   | (1,152)             |
| Common stock repurchases . . . . .                                                                     | (239)        | —                      | —                                     | —                   | (239)               |
| Cash dividends . . . . .                                                                               | (683)        | —                      | —                                     | —                   | (683)               |
| Exercise of common stock options . . . . .                                                             | 132          | —                      | —                                     | —                   | 132                 |
| Distributions paid to noncontrolling interests and<br>other . . . . .                                  | 14           | —                      | (66)                                  | —                   | (52)                |
| (Increase) decrease in intercompany and<br>investments, net . . . . .                                  | <u>913</u>   | <u>19</u>              | <u>(932)</u>                          | <u>—</u>            | <u>—</u>            |
| Net cash provided by (used in) financing<br>activities . . . . .                                       | <u>157</u>   | <u>19</u>              | <u>(863)</u>                          | <u>—</u>            | <u>(687)</u>        |
| Effect of exchange rate changes on cash and cash<br>equivalents . . . . .                              | —            | —                      | (4)                                   | —                   | (4)                 |
| Increase (decrease) in cash and cash equivalents . . .                                                 | (60)         | —                      | (76)                                  | —                   | (136)               |
| Cash and cash equivalents at beginning of year . . . .                                                 | <u>60</u>    | <u>—</u>               | <u>134</u>                            | <u>—</u>            | <u>194</u>          |
| Cash and cash equivalents at end of year . . . . .                                                     | <u>\$ —</u>  | <u>\$ —</u>            | <u>\$ 58</u>                          | <u>\$ —</u>         | <u>\$ 58</u>        |

**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)**

|                                                                                                    | <u>WM</u>    | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------------------------------------------------------------------------|--------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2012</b>                                                                |              |                        |                                       |                     |                     |
| Cash flows from operating activities:                                                              |              |                        |                                       |                     |                     |
| Consolidated net income .....                                                                      | \$ 817       | \$ 1,034               | \$ 1,089                              | \$(2,080)           | \$ 860              |
| Equity in earnings of subsidiaries, net of<br>taxes .....                                          | (1,034)      | (1,046)                | —                                     | 2,080               | —                   |
| Other adjustments .....                                                                            | <u>81</u>    | <u>—</u>               | <u>1,354</u>                          | <u>—</u>            | <u>1,435</u>        |
| Net cash provided by (used in) operating<br>activities .....                                       | <u>(136)</u> | <u>(12)</u>            | <u>2,443</u>                          | <u>—</u>            | <u>2,295</u>        |
| Cash flows from investing activities:                                                              |              |                        |                                       |                     |                     |
| Acquisitions of businesses, net of cash<br>acquired .....                                          | —            | —                      | (250)                                 | —                   | (250)               |
| Capital expenditures .....                                                                         | —            | —                      | (1,510)                               | —                   | (1,510)             |
| Proceeds from divestitures of businesses (net of<br>cash divested) and other sales of assets ..... | —            | —                      | 44                                    | —                   | 44                  |
| Net receipts from restricted trust and escrow<br>accounts and other, net .....                     | <u>—</u>     | <u>—</u>               | <u>(114)</u>                          | <u>—</u>            | <u>(114)</u>        |
| Net cash provided by (used in) investing<br>activities .....                                       | <u>—</u>     | <u>—</u>               | <u>(1,830)</u>                        | <u>—</u>            | <u>(1,830)</u>      |
| Cash flows from financing activities:                                                              |              |                        |                                       |                     |                     |
| New borrowings .....                                                                               | 895          | —                      | 285                                   | —                   | 1,180               |
| Debt repayments .....                                                                              | (585)        | —                      | (473)                                 | —                   | (1,058)             |
| Common stock repurchases .....                                                                     | —            | —                      | —                                     | —                   | —                   |
| Cash dividends .....                                                                               | (658)        | —                      | —                                     | —                   | (658)               |
| Exercise of common stock options .....                                                             | 43           | —                      | —                                     | —                   | 43                  |
| Distributions paid to noncontrolling interests<br>and other .....                                  | 15           | —                      | (52)                                  | —                   | (37)                |
| (Increase) decrease in intercompany and<br>investments, net .....                                  | <u>367</u>   | <u>12</u>              | <u>(379)</u>                          | <u>—</u>            | <u>—</u>            |
| Net cash provided by (used in) financing<br>activities .....                                       | <u>77</u>    | <u>12</u>              | <u>(619)</u>                          | <u>—</u>            | <u>(530)</u>        |
| Effect of exchange rate changes on cash and cash<br>equivalents .....                              | <u>—</u>     | <u>—</u>               | <u>1</u>                              | <u>—</u>            | <u>1</u>            |
| Increase (decrease) in cash and cash<br>equivalents .....                                          | (59)         | —                      | (5)                                   | —                   | (64)                |
| Cash and cash equivalents at beginning of<br>year .....                                            | <u>119</u>   | <u>—</u>               | <u>139</u>                            | <u>—</u>            | <u>258</u>          |
| Cash and cash equivalents at end of year .....                                                     | <u>\$ 60</u> | <u>\$ —</u>            | <u>\$ 134</u>                         | <u>\$ —</u>         | <u>\$ 194</u>       |



**WASTE MANAGEMENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)**

|                                                                                                    | <u>WM</u>     | <u>WM<br/>Holdings</u> | <u>Non-Guarantor<br/>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------------------------------------------------------------------------|---------------|------------------------|---------------------------------------|---------------------|---------------------|
| <b>Year Ended December 31, 2011</b>                                                                |               |                        |                                       |                     |                     |
| Cash flows from operating activities:                                                              |               |                        |                                       |                     |                     |
| Consolidated net income .....                                                                      | \$ 961        | \$ 1,168               | \$ 1,236                              | \$(2,356)           | \$ 1,009            |
| Equity in earnings of subsidiaries, net of<br>taxes .....                                          | (1,168)       | (1,188)                | —                                     | 2,356               | —                   |
| Other adjustments .....                                                                            | <u>12</u>     | <u>(3)</u>             | <u>1,451</u>                          | <u>—</u>            | <u>1,460</u>        |
| Net cash provided by (used in) operating<br>activities .....                                       | <u>(195)</u>  | <u>(23)</u>            | <u>2,687</u>                          | <u>—</u>            | <u>2,469</u>        |
| Cash flows from investing activities:                                                              |               |                        |                                       |                     |                     |
| Acquisition of businesses, net of cash<br>acquired .....                                           | —             | —                      | (867)                                 | —                   | (867)               |
| Capital expenditures .....                                                                         | —             | —                      | (1,324)                               | —                   | (1,324)             |
| Proceeds from divestitures of businesses (net of<br>cash divested) and other sales of assets ..... | —             | —                      | 36                                    | —                   | 36                  |
| Net receipts from restricted trust and escrow<br>accounts and other, net .....                     | <u>(5)</u>    | <u>—</u>               | <u>(25)</u>                           | <u>—</u>            | <u>(30)</u>         |
| Net cash provided by (used in) investing<br>activities .....                                       | <u>(5)</u>    | <u>—</u>               | <u>(2,180)</u>                        | <u>—</u>            | <u>(2,185)</u>      |
| Cash flows from financing activities:                                                              |               |                        |                                       |                     |                     |
| New borrowings .....                                                                               | 1,043         | —                      | 158                                   | —                   | 1,201               |
| Debt repayments .....                                                                              | —             | (147)                  | (356)                                 | —                   | (503)               |
| Common stock repurchases .....                                                                     | (575)         | —                      | —                                     | —                   | (575)               |
| Cash dividends .....                                                                               | (637)         | —                      | —                                     | —                   | (637)               |
| Exercise of common stock options .....                                                             | 45            | —                      | —                                     | —                   | 45                  |
| Distributions paid to noncontrolling interests<br>and other .....                                  | (10)          | —                      | (87)                                  | —                   | (97)                |
| (Increase) decrease in intercompany and<br>investments, net .....                                  | <u>(12)</u>   | <u>170</u>             | <u>(158)</u>                          | <u>—</u>            | <u>—</u>            |
| Net cash provided by (used in) financing<br>activities .....                                       | <u>(146)</u>  | <u>23</u>              | <u>(443)</u>                          | <u>—</u>            | <u>(566)</u>        |
| Effect of exchange rate changes on cash and cash<br>equivalents .....                              | <u>—</u>      | <u>—</u>               | <u>1</u>                              | <u>—</u>            | <u>1</u>            |
| Increase (decrease) in cash and cash<br>equivalents .....                                          | (346)         | —                      | 65                                    | —                   | (281)               |
| Cash and cash equivalents at beginning of<br>year .....                                            | <u>465</u>    | <u>—</u>               | <u>74</u>                             | <u>—</u>            | <u>539</u>          |
| Cash and cash equivalents at end of year .....                                                     | <u>\$ 119</u> | <u>\$ —</u>            | <u>\$ 139</u>                         | <u>\$ —</u>         | <u>\$ 258</u>       |

**Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**Effectiveness of Controls and Procedures**

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of December 31, 2013 (the end of the period covered by this Annual Report on Form 10-K).

**Management's Report on Internal Control Over Financial Reporting**

Management's report on our internal control over financial reporting can be found in Item 8, *Financial Statements and Supplementary Data*, of this report. Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2013 as stated in their report, which appears in Item 8 of this report.

**Changes in Internal Control over Financial Reporting**

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

**Item 9B. *Other Information.***

None.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance.***

The information required by this Item is incorporated by reference to the sections entitled "Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Executive Officers," in the Company's definitive Proxy Statement for its 2014 Annual Meeting of Stockholders (the "Proxy Statement"), to be held May 13, 2014. The Proxy Statement will be filed with the SEC within 120 days of the end of our fiscal year.

We have adopted a code of ethics that applies to our CEO, CFO and Chief Accounting Officer, as well as other officers, directors and employees of the Company. The code of ethics, entitled "Code of Conduct," is posted on our website at [www.wm.com](http://www.wm.com) under the section "Corporate Governance" within the "Investor Relations" tab.

**Item 11. *Executive Compensation.***

The information required by this Item is incorporated herein by reference to the sections entitled "Board of Directors — Non-Employee Director Compensation," "— Compensation Committee Report," "— Compensation Committee Interlocks and Insider Participation," "Executive Compensation — Compensation Discussion and Analysis" and "— Executive Compensation Tables" in the Proxy Statement.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item is incorporated herein by reference to the sections entitled “Equity Compensation Plan Table,” “Director Nominee and Officer Stock Ownership,” and “Persons Owning More than 5% of Waste Management Common Stock” in the Proxy Statement.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item is incorporated herein by reference to the sections entitled “Board of Directors — Related Party Transactions” and “— Independence of Board Members” in the Proxy Statement.

**Item 14. *Principal Accounting Fees and Services.***

The information required by this Item is incorporated herein by reference to the section entitled “Ratification of Independent Registered Public Accounting Firm — Independent Registered Public Accounting Firm Fee Information” in the Proxy Statement.

**PART IV**

**Item 15. *Exhibits, Financial Statement Schedules***

(a) (1) Consolidated Financial Statements:

Reports of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2013 and 2012  
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011  
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011  
Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011  
Notes to Consolidated Financial Statements

(a) (2) *Consolidated Financial Statement Schedules:*

Schedule II — Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is not significant or is included in the financial statements or notes thereto, or is not applicable.

(b) *Exhibits:*

The exhibit list required by this Item is incorporated by reference to the Exhibit Index filed as part of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ DAVID P. STEINER          

David P. Steiner

*President, Chief Executive Officer and Director*

Date: February 18, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                        | <u>Title</u>                                                                             | <u>Date</u>       |
|---------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------|
| <u>/s/ DAVID P. STEINER</u><br>David P. Steiner         | President, Chief Executive Officer and Director<br>(Principal Executive Officer)         | February 18, 2014 |
| <u>/s/ JAMES C. FISH, JR.</u><br>James C. Fish, Jr.     | Executive Vice President and<br>Chief Financial Officer<br>(Principal Financial Officer) | February 18, 2014 |
| <u>/s/ DON P. CARPENTER</u><br>Don P. Carpenter         | Vice President and Chief Accounting Officer<br>(Principal Accounting Officer)            | February 18, 2014 |
| <u>/s/ BRADBURY H. ANDERSON</u><br>Bradbury H. Anderson | Director                                                                                 | February 18, 2014 |
| <u>/s/ FRANK M. CLARK</u><br>Frank M. Clark             | Director                                                                                 | February 18, 2014 |
| <u>/s/ PARTICK W. GROSS</u><br>Patrick W. Gross         | Director                                                                                 | February 18, 2014 |
| <u>/s/ VICTORIA M. HOLT</u><br>Victoria M. Holt         | Director                                                                                 | February 18, 2014 |
| <u>/s/ JOHN C. POPE</u><br>John C. Pope                 | Director                                                                                 | February 18, 2014 |
| <u>/s/ W. ROBERT REUM</u><br>W. Robert Reum             | Chairman of the Board and Director                                                       | February 18, 2014 |
| <u>/s/ THOMAS H. WEIDEMEYER</u><br>Thomas H. Weidemeyer | Director                                                                                 | February 18, 2014 |

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Waste Management, Inc.

We have audited the consolidated financial statements of Waste Management, Inc. as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, and have issued our report thereon dated February 18, 2014 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 18, 2014

**WASTE MANAGEMENT, INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
(In Millions)

|                                                       | <u>Balance<br/>Beginning of<br/>Year</u> | <u>Charged<br/>(Credited) to<br/>Income</u> | <u>Accounts<br/>Written<br/>Off/Use of<br/>Reserve</u> | <u>Balance<br/>End of<br/>Year</u> |
|-------------------------------------------------------|------------------------------------------|---------------------------------------------|--------------------------------------------------------|------------------------------------|
| 2011 — Reserves for doubtful accounts(a) . . . . .    | \$27                                     | \$44                                        | \$(42)                                                 | \$29                               |
| 2012 — Reserves for doubtful accounts(a) . . . . .    | \$29                                     | \$57                                        | \$(41)                                                 | \$45                               |
| 2013 — Reserves for doubtful accounts(a) . . . . .    | \$45                                     | \$39                                        | \$(50)                                                 | \$34                               |
| 2011 — Merger and restructuring accruals(b) . . . . . | \$ 3                                     | \$19                                        | \$(13)                                                 | \$ 9                               |
| 2012 — Merger and restructuring accruals(b) . . . . . | \$ 9                                     | \$67                                        | \$(44)                                                 | \$32                               |
| 2013 — Merger and restructuring accruals(b) . . . . . | \$32                                     | \$18                                        | \$(36)                                                 | \$14                               |

(a) Includes reserves for doubtful accounts receivable and notes receivable.

(b) Included in accrued liabilities in our Consolidated Balance Sheets. These accruals represent employee severance and benefit costs and transitional costs.

## INDEX TO EXHIBITS

| <u>Exhibit<br/>No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                    | — Third Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2010].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3.2                    | — Amended and Restated By-laws of Waste Management, Inc. [incorporated by reference to Exhibit 3.2 to Form 8-K dated December 6, 2012].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.1                    | — Specimen Stock Certificate [incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 1998].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4.2                    | — Indenture for Subordinated Debt Securities dated February 3, 1997, among the Registrant and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee [incorporated by reference to Exhibit 4.1 to Form 8-K dated February 7, 1997].                                                                                                                                                                                                                                                                                                                                                |
| 4.3                    | — Indenture for Senior Debt Securities dated September 10, 1997, among the Registrant and The Bank of New York Mellon Trust Company, N.A. (the current successor to Texas Commerce Bank National Association), as trustee [incorporated by reference to Exhibit 4.1 to Form 8-K dated September 10, 1997].                                                                                                                                                                                                                                                                                                                                                  |
| 4.4                    | — Officers' Certificate delivered pursuant to Section 301 of the Indenture dated September 10, 1997 by and between Waste Management, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee, establishing the terms and form of Waste Management, Inc.'s 2.60% Senior Notes due 2016 [incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended September 30, 2012].                                                                                                                                                                                                                                                        |
| 4.5                    | — Guarantee Agreement by Waste Management Holdings, Inc. in favor of The Bank of New York Mellon Trust Company, N.A., as Trustee for the holders of Waste Management, Inc.'s 2.60% Senior Notes due 2016 [incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended September 30, 2012].                                                                                                                                                                                                                                                                                                                                                  |
| 4.6*                   | — Schedule of Officers' Certificates delivered pursuant to Section 301 of the Indenture dated September 10, 1997 establishing the terms and form of Waste Management, Inc.'s Senior Notes. Waste Management and its subsidiaries are parties to debt instruments that have not been filed with the SEC under which the total amount of securities authorized under any single instrument does not exceed 10% of the total assets of Waste Management and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Waste Management agrees to furnish a copy of such instruments to the SEC upon request. |
| 10.1†                  | — 2009 Stock Incentive Plan [incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed March 25, 2009].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 10.2†                  | — 2005 Annual Incentive Plan [incorporated by reference to Appendix D to the Proxy Statement on Schedule 14A filed April 8, 2004].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 10.3†                  | — Employee Stock Purchase Plan [incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A filed March 28, 2012].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 10.4†                  | — Waste Management, Inc. 409A Deferral Savings Plan. [incorporated by reference to Exhibit 10.4 to Form 10-K for the year ended December 31, 2006].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.5†                  | — 1993 Stock Incentive Plan [incorporated by reference to Exhibit 10.2 to Form 10-K for the year ended December 31, 1998].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 10.6†                  | — 2000 Stock Incentive Plan [incorporated by reference to Appendix B to the Proxy Statement on Schedule 14A filed April 6, 2000].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10.7†                  | — 2004 Stock Incentive Plan [incorporated by reference to Appendix C to Proxy Statement on Schedule 14A filed April 8, 2004].                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |



- 10.8 — \$2.25 Billion Second Amended and Restated Revolving Credit Agreement by and among Waste Management, Inc. and Waste Management Holdings, Inc. and certain banks party thereto, Bank of America, N.A., as Administrative Agent, JPMorgan Chase Bank, N.A. and Barclays Bank PLC, as syndication agents, BNP Paribas, Citibank, N.A., Deutsche Bank AG New York Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd., The Royal Bank of Scotland plc, U.S. Bank National Association and Wells Fargo Bank, National Association, as co-documentation agents and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Barclays Bank PLC, as lead arrangers and joint bookrunners. [incorporated by reference to Exhibit 10.1 to Form 8-K filed July 30, 2013].
- 10.9 — CDN\$650 Million Credit Facilities Credit Agreement by and among Waste Management of Canada Corporation and WM Quebec Inc., as borrowers, Waste Management, Inc. and Waste Management Holdings, Inc., as guarantors, The Bank of Nova Scotia, as administrative agent, JP Morgan Chase Bank, N.A., Bank of America, N.A. and PNC Bank, National Association, as co-syndication agents, the Bank of Nova Scotia, J.P. Morgan Securities LLC, Merrill, Lynch, Pierce, Fenner & Smith Incorporated and PNC Capital Markets LLC, as joint lead arrangers and joint bookrunners and the Lenders from time to time party thereto [incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2013]
- 10.10 — First Amendment Agreement to CDN\$650 Credit Facilities Credit Agreement by and among Waste Management of Canada Corporation and WM Quebec Inc., as borrowers, Waste Management, Inc. and Waste Management Holdings, Inc., as guarantors, the Lenders from time to time party thereto, and The Bank of Nova Scotia, as administrative agent [incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2013].
- 10.11† — Employment Agreement between the Company and David Steiner dated May 6, 2002 [incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2002].
- 10.12† — Employment Agreement between the Company and James E. Trevathan dated June 1, 2000 [incorporated by reference to Exhibit 10.20 to Form 10-K for the year ended December 31, 2000].
- 10.13† — Amendment to Employment Agreement between the Company and James E. Trevathan [incorporated by reference to Exhibit 10.3 to Form 8-K dated March 9, 2011].
- 10.14† — Employment Agreement between the Company and James C. Fish, Jr. dated August 15, 2011 [incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2011].
- 10.15† — First Amendment to Employment Agreement between the Company and James C. Fish, Jr. dated July 20, 2012 [incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2012].
- 10.16† — Employment Agreement between the Company and Jeff Harris dated December 1, 2006 [incorporated by reference to Exhibit 10.1 to Form 8-K dated December 1, 2006].
- 10.17† — Amendment to Employment Agreement by and between the Company and Jeff Harris [incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 30, 2011].
- 10.18† — Employment Agreement between the Company and John Morris dated June 18, 2012 [incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 2012].
- 10.19† — Employment Agreement between the Company and Barry H. Caldwell dated September 23, 2002 [incorporated by reference to Exhibit 10.24 to Form 10-K for the year ended December 31, 2002].
- 10.20† — Employment Agreement between the Company and David Aardsma dated June 16, 2005 [incorporated by reference to Exhibit 10.1 to Form 8-K dated June 16, 2005].
- 10.21† — Employment Agreement between the Company and Rick L Wittenbraker dated November 10, 2003 [incorporated by reference to Exhibit 10.30 to Form 10-K for the year ended December 31, 2003].
- 10.22† — Employment Agreement between the Company and William K. Caesar dated August 23, 2011 [incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2011].
- 10.23† — Employment Agreement between the Company and Puneet Bhasin dated December 7, 2009 [incorporated by reference to Exhibit 10.12 to Form 10-K for the year ended December 31, 2009].

|          |   |                                                                                                                                                                                                                                                                                                                                           |
|----------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.24†   | — | Employment Agreement between the Company and Mark Schwartz dated July 5, 2012 [incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended June 30, 2012].                                                                                                                                                               |
| 10.25†   | — | Employment Agreement between the Company and Don P. Carpenter dated July 31, 2000, as amended by First Amendment to Employment Agreement between USA Waste-Management Resources, LLC and Don P. Carpenter effective as of August 24, 2012 [incorporated by reference to Exhibit 10.23 to Form 10-K for the year ended December 31, 2012]. |
| 10.26†   | — | Employment Agreement between Wheelabrator Technologies Inc. and Mark A. Weidman dated May 11, 2006 [incorporated by reference to Exhibit 10.1 to Form 8-K dated May 11, 2006].                                                                                                                                                            |
| 10.27†   | — | Form of Director and Executive Officer Indemnity Agreement [incorporated by reference to Exhibit 10.43 to Form 10-K for the year ended December 31, 2012].                                                                                                                                                                                |
| 10.28†   | — | Form of 2013 PSU Award Agreement with ROIC Performance Measure [incorporated by reference to Exhibit 10.1 to Form 8-K filed March 13, 2013].                                                                                                                                                                                              |
| 10.29†   | — | Form of 2013 PSU Award Agreement with TSR Performance Measure [incorporated by reference to Exhibit 10.2 to Form 8-K filed March 13, 2013].                                                                                                                                                                                               |
| 10.30†   | — | Form of 2013 Stock Option Award Agreement [incorporated by reference to Exhibit 10.3 to Form 8-K filed March 13, 2013].                                                                                                                                                                                                                   |
| 10.31†   | — | Form of 2012 Restricted Stock Unit Award Agreement [incorporated by reference to Exhibit 10.2 to Form 8-K dated July 3, 2012].                                                                                                                                                                                                            |
| 10.32†   | — | Form of 2012 Performance Share Unit Award Agreement with ROIC Performance Measure [incorporated by reference to Exhibit 10.1 to Form 8-K dated March 9, 2012].                                                                                                                                                                            |
| 10.33†   | — | Form of 2012 Performance Share Unit Award Agreement with TSR Performance Measure [incorporated by reference to Exhibit 10.2 to Form 8-K dated March 9, 2012].                                                                                                                                                                             |
| 10.34†   | — | Form of 2012 Stock Option Award Agreement [incorporated by reference to Exhibit 10.2 to Form 8-K dated March 9, 2012].                                                                                                                                                                                                                    |
| 10.35†   | — | Form of 2011 Performance Share Unit Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K dated March 9, 2011].                                                                                                                                                                                                          |
| 10.36†   | — | Form of 2011 Stock Option Award Agreement [incorporated by reference to Exhibit 10.2 to Form 8-K dated March 9, 2011].                                                                                                                                                                                                                    |
| 12.1*    | — | Computation of Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                        |
| 21.1*    | — | Subsidiaries of the Registrant.                                                                                                                                                                                                                                                                                                           |
| 23.1*    | — | Consent of Independent Registered Public Accounting Firm.                                                                                                                                                                                                                                                                                 |
| 31.1*    | — | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer.                                                                                                                                                                 |
| 31.2*    | — | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.                                                                                                                                                |
| 32.1*    | — | Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer.                                                                                                                                                                                                                                     |
| 32.2*    | — | Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., Executive Vice President and Chief Financial Officer.                                                                                                                                                                                                                    |
| 95*      | — | Mine Safety Disclosures.                                                                                                                                                                                                                                                                                                                  |
| 101.INS* | — | XBRL Instance Document.                                                                                                                                                                                                                                                                                                                   |
| 101.SCH* | — | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                                                                                                  |
| 101.CAL* | — | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                                                                                                    |
| 101.DEF* | — | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                                                                                                     |
| 101.LAB* | — | XBRL Taxonomy Extension Labels Linkbase Document.                                                                                                                                                                                                                                                                                         |
| 101.PRE* | — | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                                                                                                   |

\* Filed herewith.

† Denotes management contract or compensatory plan or arrangement.

## Non-GAAP Measure

Our letter to Shareholders, Customers, Employees and Communities included in this 2013 Annual Report presents adjusted earnings per diluted share (adjusted EPS), which excludes certain items affecting comparability of our results. Adjusted EPS is not defined by generally accepted accounting principles (GAAP). Please see below for a reconciliation of the differences between adjusted EPS and earnings per diluted share calculated in accordance with GAAP. We believe that non-GAAP measures provide useful information to investors by excluding items that the Company does not believe reflect its fundamental business performance and/or are not representative or indicative of our results of operations. Non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

|                                                                              | Year Ended<br>December 31, 2013<br>(Dollars in Millions, Except<br>Per Share Amounts)<br>(Unaudited) |                     |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|---------------------|
|                                                                              | After-tax<br>Amount (a)                                                                              | Per Share<br>Amount |
| <b>Adjusted Earnings Per Diluted Share</b>                                   |                                                                                                      |                     |
| <b>Net Income and Earnings Per Diluted Share, as reported</b> . . . . .      | <b>\$ 98</b>                                                                                         | <b>\$0.21</b>       |
| <b>Adjustments to Net Income and Earnings Per Diluted Share:</b>             |                                                                                                      |                     |
| Asset impairments (b) . . . . .                                              | 896                                                                                                  |                     |
| Restructuring . . . . .                                                      | 11                                                                                                   |                     |
| Partial withdrawal from multiemployer pension plan . . . . .                 | 3                                                                                                    |                     |
|                                                                              | <b>910</b>                                                                                           | <b>1.94</b>         |
| <b>Adjusted Net Income and Adjusted Earnings Per Diluted Share</b> . . . . . | <b>\$1,008</b>                                                                                       | <b>\$2.15</b>       |

- (a) Tax expense attributable to each adjustment was as follows: Asset impairments- \$142 million; Restructuring- \$7 million; and Partial withdrawal from multiemployer pension plan- \$2 million.
- (b) Adjustments include impairment charges (net of non-controlling interest associated with certain of our impaired assets) associated with assets in the “Asset Impairments and Unusual Items” financial caption, as well as impairment charges associated with certain of our investments in unconsolidated entities that are included in the “Equity in Earnings (Losses) of Unconsolidated Entities” and “Other, net” financial captions. See Note 13 to the Consolidated Financial Statements, beginning on page 121 of our Annual Report on Form 10-K (enclosed herein), for additional information about the primary drivers of these charges.



## Corporate Information

### BOARD OF DIRECTORS

**BRADBURY H. ANDERSON** (C, N)

Retired Vice Chairman  
and Chief Executive Officer  
Best Buy Co., Inc.

**FRANK M. CLARK, JR.** (A, C)

Retired Chairman  
and Chief Executive Officer  
ComEd

**PATRICK W. GROSS** (A, N)

Chairman  
The Lovell Group

**VICTORIA M. HOLT** (C, N)

President and Chief Executive Officer  
Proto Labs, Inc.

**JOHN C. POPE** (C, N)

Chairman  
PFI Group

**W. ROBERT REUM** (A, C, N)

Non-Executive Chairman of the Board  
Waste Management, Inc.  
Chairman, President,  
and Chief Executive Officer  
Amsted Industries Incorporated

**DAVID P. STEINER**

President and Chief Executive Officer  
Waste Management, Inc.

**THOMAS H. WEIDEMEYER** (A, N)

Retired Senior Vice President  
and Chief Operating Officer  
United Parcel Service, Inc.

(A) Audit Committee

(C) Management Development and  
Compensation Committee

(N) Nominating and Governance  
Committee

### OFFICERS

**DAVID P. STEINER**

President and Chief Executive Officer

**DAVID A. AARDSMA**

Senior Vice President and  
Chief Sales and Marketing Officer

**PUNEET BHASIN**

Chief Information Officer and  
Senior Vice President,  
Technology, Logistics and  
Customer Service

**BARRY H. CALDWELL**

Senior Vice President,  
Government Affairs and  
Communications

**JAMES C. FISH, JR.**

Executive Vice President and  
Chief Financial Officer

**JEFF M. HARRIS**

Senior Vice President,  
Field Operations

**JOHN J. MORRIS**

Senior Vice President,  
Field Operations

**MARK E. SCHWARTZ**

Senior Vice President,  
Human Resources

**JAMES E. TREVATHAN**

Executive Vice President and  
Chief Operating Officer

**RICK L. WITTENBRAKER**

Senior Vice President and  
General Counsel

**WILLIAM K. CAESAR**

President  
WM Recycle America, L.L.C.

**MARK A. WEIDMAN**

President  
Wheelabrator Technologies Inc.

**DON P. CARPENTER**

Vice President and  
Chief Accounting Officer

**DEVINA A. RANKIN**

Vice President  
and Treasurer

**LINDA J. SMITH**

Corporate Secretary

### CORPORATE HEADQUARTERS

Waste Management, Inc.  
1001 Fannin, Suite 4000  
Houston, Texas 77002  
Telephone: (713) 512-6200  
Facsimile: (713) 512-6299

### INDEPENDENT AUDITORS

Ernst & Young LLP  
5 Houston Center, Suite 1200  
1401 McKinney Street  
Houston, Texas 77010  
(713) 750-1500

### COMPANY STOCK

The Company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol "WM." The number of holders of record of common stock based on the transfer records of the Company at February 28, 2014 was approximately 12,500. Based on security position listings, the Company believes it had at that date approximately 386,000 beneficial owners.

### TRANSFER AGENT AND REGISTRAR

Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845  
(800) 969-1190

### INVESTOR RELATIONS

Security analysts, investment professionals, and shareholders should direct inquiries to Investor Relations at the corporate address or call (713) 512-6574.

### ANNUAL MEETING

The annual meeting of the stockholders of the Company is scheduled to be held at 11:00 a.m. on May 13, 2014 at: The Maury Myers Conference Center  
Waste Management, Inc.  
1021 Main Street  
Houston, Texas 77002

### WEB SITE

[www.wm.com](http://www.wm.com)



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