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**WMI #06-13**

## **Waste Management Announces Third Quarter 2006 Earnings**

### **Company Raises Full-Year 2006 Earnings Guidance**

**HOUSTON – October 25, 2006** – Waste Management, Inc. (NYSE: WMI) today announced financial results for its third quarter ended September 30, 2006. Revenues for the quarter were \$3.44 billion as compared with \$3.38 billion in the year ago period, an increase of 2.0%. Net income for the quarter was \$300 million, or \$0.55 per diluted share, compared with \$215 million, or \$0.38 per diluted share, in the prior year period, which represents a 45% increase in earnings per diluted share.

The Company noted one-time items that impacted the results in the current and prior years' third quarters. Results in the current quarter included:

- A \$20 million benefit in net income resulting primarily from favorable income tax audit settlements and adjustments required for the finalization of our 2005 tax returns; and
- A \$16 million reduction in net income due mainly to asset impairment charges and losses on sales of operations related to the previously announced divestiture program.

Results in the prior year's third quarter included a net \$40 million reduction in net income due primarily to combined charges of \$96 million after-tax in asset impairments and unusual items, restructuring charges and additional landfill amortization expense. Partially offsetting these charges was a \$56 million after-tax reduction in income tax expense resulting mainly from favorable tax audit settlements.

Excluding these items, net income would have been \$296 million, or \$0.55 per diluted share, in the third quarter of 2006 compared with \$255 million, or \$0.45 per diluted share, in the prior year quarter, which represents a 22% increase in earnings per diluted share.<sup>(a)</sup>

Income from operations as a percent of revenue was 16.2% in the third quarter of 2006. Income from operations as a percent of revenue, as adjusted for the items noted above, increased 150 basis points to 16.8% in the current year's quarter compared with the prior year's quarter.<sup>(a)</sup>

"We were very pleased with our results during the quarter as we again exceeded our internal expectations and achieved our primary financial goals of strong earnings growth, margin expansion and strong free cash flow," said David P. Steiner, Chief Executive Officer of Waste Management. "We accomplished these objectives in the third quarter of this year due to the success of our pricing programs combined with a \$21 million reduction in our operating expenses compared with the prior year's quarter. As a percent of revenue, we lowered our operating expenses by 180 basis points compared with the third quarter of 2005.

"Our internal revenue growth due to yield on base business of 3.6% indicates that our pricing excellence initiatives continue to generate positive results. This higher yield more than offset the 1.8% volume loss that we experienced during the quarter, about half of which resulted from the combination of nearly one less workday and lower non-core revenues. The remaining volume loss was primarily in our collection lines of business, which is driven mainly by our strategy to price our work in order to achieve acceptable margins and returns. This pricing strategy is the primary factor leading to our robust margin expansion. Also contributing to the margin expansion are our operational excellence programs and the reduction in operating expenses as we flexed down costs due to lower volume. This marks the fifth consecutive quarter in which our year-over-year operating costs as a percent of revenue have declined.

Steiner also highlighted the Company's strong cash position: "We generated \$745 million in net cash provided by operating activities and \$431 million in free cash flow during this year's third quarter, bringing our free cash flow total to \$1.24 billion for the first nine months of 2006.<sup>(a)</sup> We returned \$425 million in cash to our shareholders during the third quarter in the form of share repurchases and our quarterly cash dividend payment and remain on track to return nearly \$1.55 billion to our shareholders for the full-year. Although we expect sequential capital expenditures to increase significantly during the fourth quarter, we project that our full-year free cash flow will meet or exceed the range of \$1.2 to \$1.3 billion."

### **Key Highlights for the Quarter**

- Internal revenue growth on base business due to yield increased 3.6%. Including \$31 million obtained through our fuel surcharge program, the base business revenue growth from yield was 4.6%.
- Internal revenue growth from volumes decreased 1.8%. Approximately one-half of this decline resulted from the impact of nearly one less workday and lower non-core volumes.
- Divestitures net of acquisitions caused a 1.1% decline in revenues in the quarter and foreign currency translation caused a 0.3% increase in revenues.

- Operating expenses declined by \$21 million, or approximately 1%, to \$2.18 billion in the third quarter of 2006. As a percent of revenue, operating expenses fell to 63.4% during the current year quarter, which is a 180 basis point improvement compared with the prior year quarter.
- Net cash provided by operating activities of \$745 million in the third quarter. For the nine-month period, net cash provided by operating activities was \$1.87 billion.
- Free cash flow of \$431 million. For the nine-month period, free cash flow was \$1.24 billion.<sup>(a)</sup>
- Capital expenditures of \$357 million in the third quarter. For the nine-month period, capital expenditures totaled \$824 million.
- \$425 million returned to shareholders in the third quarter, consisting of \$118 million in cash dividends and \$307 million in common stock repurchases.
- The effective tax rate in the third quarter of 2006 was 27.4%. This is lower than the 39.3% rate projected in the Company's second quarter 2006 earnings release, primarily due to \$20 million in tax items noted above, the reduction in the estimated phase-out of Section 45K tax credits and the third quarter resumption of operations of the synthetic fuel partnerships in which the Company invests. At the end of the second quarter, the Company estimated the full year phase-out of its Section 45K tax credits to be 78%. It has now reduced the estimated full-year phase-out to 35% due to its outlook for average full-year crude oil prices. Based on an estimated 35% phase-out, the Company recorded a benefit of approximately \$0.05 per diluted share during the third quarter, which includes \$0.02 of additional tax credits attributable to the first two quarters of the year. At the revised 35% phase-out estimate, the Company projects a benefit from Section 45K tax credits of approximately \$0.01 per diluted share in the fourth quarter of 2006. The Company's fourth quarter effective tax rate is projected to be 36.0%.

Steiner concluded, "Our nearly 50,000 employees produced the best quarter I have seen at Waste Management. As a result of our strong performance through the first nine months of the year and our expectations for the fourth quarter, we are raising our full year earnings guidance. As part of our second quarter 2006 earnings release, we projected our full-year 2006 earnings to be at the upper end of the analysts' then current full-year range of \$1.69 to \$1.75 per diluted share. Adjusting for the non-recurring items noted in our 2006 quarterly earnings releases, we now expect our full year earnings to be within the range of \$1.78 to \$1.81 per diluted share."

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<sup>(a)</sup> This earnings release contains net income, earnings per share, earnings per share growth and forecast, income from operations as a percentage of revenue and income from operations as a percentage of revenue growth, each as adjusted to exclude the impact of certain unusual, non-recurring or otherwise non-operational items. These are non-GAAP measures as defined in Regulation G of the Securities Exchange Act of 1934, as amended, and are not intended to replace the most comparable GAAP measures that are also presented in this press release. The Company reports its financial results in compliance with GAAP, but believes that also providing non-GAAP measures provides investors additional, meaningful comparisons of current results to prior periods' results by excluding items that the Company does not believe reflect its fundamental business performance. The Company also discloses its free cash flow and free cash flow forecast, which are non-GAAP measures. The Company defines 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.

The Company's definition of free cash flow may not be comparable to similarly titled measures presented by other companies, and therefore not subject to comparison. The Company includes the non-GAAP financial measure of free cash flow in its disclosures because it uses that measure in the management of its business and because it believes that investors are interested in the cash produced by the Company from non-financing activities that is available for uses such as the Company's acquisitions, its share repurchase program, its scheduled debt reduction and the payment of dividends.

Quantitative reconciliations of each of the non-GAAP measures presented herein to the most comparable GAAP measures are included in the accompanying schedules. Investors are urged to take into account GAAP measures as well as non-GAAP measures in evaluating the Company.

The Company has scheduled an investor and analyst conference call for later this morning to discuss the results of today's earnings announcement. The information in this press release should be read in conjunction with the information provided on the conference call. The call will begin at 10:00 a.m. Eastern time, 9:00 a.m. Central time, and is open to the public. To listen to the conference call, which will be broadcast live over the Internet, go to the Waste Management Website at <http://www.wm.com>, and select "3Q2006 Earnings Report Webcast." You may also listen to the analyst and investor conference call by telephone by contacting the conference call operator 5 to 10 minutes prior to the scheduled start time and asking for the "Waste Management Conference Call – Call ID 7044631." US/Canada Dial-In Number: (877) 710-6139. Int'l/Local Dial-In Number: (706) 643-7398. For those unable to listen to the live call, a replay will be available 24 hours a day beginning at approximately 11:00 a.m. Central time on October 25 through 5:00 p.m. Central time on November 8. To hear a replay of the call over the Internet, access the Waste Management Website at <http://www.wm.com>. To hear a telephonic replay of the call, dial (800) 642-1687 or (706) 645-9291 and enter reservation code 7044631.

Waste Management, based in Houston, Texas, is the leading provider of comprehensive waste management services in North America. Our subsidiaries provide collection, transfer, recycling and resource recovery, and disposal services. We are also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States. Our customers include residential, commercial, industrial, and municipal customers throughout North America.

*The Company, from time to time, provides estimates of financial and other data, comments on expectations relating to future periods and makes statements of opinion, view or belief about current and future events. Statements relating to future events and performance are "forward-looking statements." The forward-looking statements that the Company makes are the Company's expectations, opinion, view or belief at the point in time of issuance but may change at some future point in time. By issuing estimates or making statements based on current expectations, opinions, views or beliefs, the Company has no obligation, and is not undertaking any obligation, to update such estimates or statements or to provide any other information relating to such estimates or statements. Outlined below are some of the risks that the Company faces and that could affect our financial statements for 2006 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. However, they are not the only risks that the Company faces. There may be additional risks that we do not presently know or that we currently believe are immaterial which could also impair our business. We caution you not to place*

*undue reliance on any forward-looking statements, which speak only as of their dates. The following are some of the risks that we face:*

- *competition may negatively affect our profitability or cash flows, our price increases may have negative effects on volumes and price roll-backs and lower than average pricing to retain and attract customers may negatively affect our yield on base business;*
- *we may be unable to maintain or expand margins if we are unable to control costs;*
- *we may be unable to attract or retain qualified personnel, including licensed commercial drivers and truck maintenance professionals;*
- *we may not be able to successfully execute or continue our operational or other margin improvement plans and programs, including pricing increases, passing on increased costs to our customers, divesting under-performing assets and purchasing accretive businesses, any of which could negatively affect our revenues and margins;*
- *fuel price increases or fuel supply shortages may increase our expenses, including our tax expense if Section 45K credits are phased out due to continued high crude oil prices;*
- *fluctuating commodity prices may have negative effects on our operating revenues and expenses;*
- *inflation and resulting higher interest rates may have negative effects on the economy, which could result in decreases in volumes of waste generated and increases in our financing costs and other expenses;*
- *the possible inability of our insurers to meet their obligations may cause our expenses to increase;*
- *weather conditions cause our quarter-to-quarter results to fluctuate, and extremely harsh weather or natural disasters may cause us to temporarily shut down operations;*
- *possible changes in our estimates of site remediation requirements, final capping, closure and post-closure obligations, compliance and regulatory developments may increase our expenses;*
- *regulations may negatively impact our business by, among other things, increasing compliance costs and potential liabilities;*
- *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;*
- *limitations or bans on disposal or transportation of out-of-state or cross-border waste or certain categories of waste can increase our expenses and reduce our revenues;*
- *possible charges as a result of shut-down operations, uncompleted development or expansion projects or other events may negatively affect earnings;*
- *trends requiring recycling, waste reduction at the source and prohibiting the disposal of certain types of wastes could have negative effects on volumes of waste going to landfills and waste-to-energy facilities, which are higher margin businesses than recycling;*
- *efforts by labor unions to organize our employees may divert management's attention and increase operating expenses and we may be unable to negotiate acceptable collective bargaining agreements with those who have been chosen to be represented by unions, which could lead to union-initiated work stoppages, including strikes, which could adversely affect our results of operations and cash flows;*
- *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 ;*
- *possible errors or problems with implementing and deploying new information technology systems may decrease our efficiencies and increase our costs to operate;*

- *the adoption of new accounting standards or interpretations may cause fluctuations in quarterly results of operations or adversely impact our results of operations; and*
- *we may reduce or eliminate our dividend or share repurchase program or we may need additional capital if cash flows are less than we expect or capital expenditures are more than we expect, and we may not be able to obtain any needed capital on acceptable terms.*

*Additional information regarding these and/or other factors that could materially affect results and the accuracy of the forward-looking statements contained herein may be found in Part I, Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.*

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[Click here to see financial tables.](#)

NOTE: The financial tables are in PDF format, and Adobe Acrobat Reader is required to view them. If you do not have Adobe Acrobat Reader, [download it here.](#)

