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Waste Management Announces Second Quarter 2007 Earnings

Income from Operations as a Percent of Revenue Expands by over 200 Basis Points

Company Raises Full-Year 2007 Earnings Guidance

HOUSTON – July 31, 2007 – Waste Management, Inc. (NYSE: WMI) today announced financial results for its second quarter ended June 30, 2007. Net income for the quarter was $338 million, or $0.64 per diluted share, compared with $417 million, or $0.76 per diluted share in the prior year period. The Company noted several items that impacted the results in the current and prior years' second quarters. Excluding these items, net income would have been $0.56 per diluted share in the second quarter of 2007 compared with $0.45 per diluted share in the prior year quarter, or a 24% increase in earnings per diluted share.[a]

The Company noted the following items that impacted the results for the quarter:

- A $24 million benefit in net income primarily resulting from income tax audit settlements and adjustments to deferred taxes arising from legislative changes.
- An after-tax benefit of $18 million due to gains on the divestitures of operations.

Combined, these items improved second quarter 2007 after-tax earnings by $42 million. Without the impact of these items, net income for the quarter would have been $296 million, or $0.56 per diluted share.[a]

The prior year's second quarter earnings included a net after-tax benefit of $168 million primarily due to tax audit settlements. Without such benefit, net income in last year's second quarter would have been $249 million, or $0.45 per diluted share.[a]

Income from operations as a percent of revenue improved 230 basis points to 18.9% in the second quarter of 2007 as compared with the second quarter of 2006. Income from operations as a percent of revenue, as adjusted for the items noted above, increased 210 basis points to 17.9% in the second quarter of 2007 as compared with the second quarter of 2006.[a]

"We are pleased with our second quarter 2007 financial performance, as we again accomplished our primary goals of adjusted earnings growth, operating margin expansion and strong free cash flow," said David P. Steiner, Chief Executive Officer of Waste Management. "Our strong financial performance continues to be driven by the success of our pricing and operational excellence programs."

Revenues for the quarter were $3.36 billion as compared with $3.41 billion in the year ago period, a decline of $52 million, as the Company continued to execute its strategy to divest underperforming operations and accounts. Excluding the divestiture of underperforming operations representing $104 million of second quarter 2006 revenues, second quarter 2007 revenues would have been up $52 million on a year-over-year basis. [(a)]

Steiner continued, "Our internal revenue growth due to yield on base business was 3.4%. If we include the 2.2% benefit from higher recycling commodity prices, internal revenue growth from yield was 5.6%. The internal revenue growth from yield in our combined commercial, industrial and residential lines of business was 4.6%. Our strategy to price work in order to achieve acceptable margins and returns again worked very well in the second quarter, as the volume loss in our collection line of business was about 4.8%, but the income from operations in our collection business grew 20%.

"The internal revenue growth from yield at our landfills and transfer stations improved in the second quarter of 2007, and we expect that to continue as we further implement our disposal pricing excellence program throughout the Company."

As for the Company's operational excellence programs, Steiner noted, "Our operating expense results continued to improve during the second quarter of 2007. We lowered our operating costs by $107 million during this year's quarter, which is a 4.9% improvement in absolute dollars when compared with the prior year's quarter. Operating expenses as a percent of revenue in the second quarter of 2007 stood at 62.3%, a 220 basis point improvement when compared with the second quarter of 2006. This marks the eighth consecutive quarter in which our year-over-year operating costs as a percent of revenue have improved.

"Net cash provided by operating activities and free cash flow were both strong for the quarter. We returned $321 million to shareholders in the form of our $0.24 per share quarterly dividend and our share repurchase program."

Key Highlights for the Second Quarter of 2007

- Income from operations as adjusted was $600 million, or 17.9% of revenue, an increase of 210 basis points compared with the prior year second quarter as adjusted.
- Internal revenue growth from yield on base business of 3.4%. Including the positive impact of higher recycling commodity prices, internal revenue growth from yield was 5.6%.
- Higher recycling commodity prices contributed approximately $0.02 per diluted share to the year-over-year improvement in earnings per diluted share.
- Internal revenue growth from volume was negative 4.4%. The volume component included a 4.8% reduction in collection volumes and a 4.4% reduction in landfill volumes.
- Divestitures caused a 3.1% decline in revenues in the quarter, while acquisitions contributed 0.2% to higher revenues.
- Operating expenses were 62.3% of revenue, down from 64.5% of revenue in the same period in 2006.
- Capital expenditures of $209 million, compared with $296 million in the second quarter of 2006.
- Free cash flow of $475 million, compared with $398 million in the second quarter of 2006.[(a)]
- A total of $321 million in cash returned to shareholders in the form of $196 million in common stock repurchases and $125 million in dividend payments.

- The effective tax rate in the quarter, after adjusting for the income tax items noted above, was 34%, which reflects an estimated phase-out of 29% of our Section 45K tax credits due to the level of actual and projected crude oil prices.[a] Section 45K tax credits generated an additional $0.02 per diluted share benefit to net income in the second quarter of 2007 compared with the second quarter of 2006.

Steiner concluded, "Our overall performance during the first and second quarters of this year was very strong. The continued success of our pricing and operational excellence strategies is clearly reflected in our results. Our first and second quarter results give us confidence that we will achieve our earnings expectations for the remaining two quarters of 2007. As a result, we now project our full-year 2007 earnings to be within the range of $2.07 to $2.11 per diluted share, without considering the financial impact associated with the recently ended labor disruption in the Oakland, California area and certain other items.[a] This is an increase from our previous projection of $2.03 to $2.07 per diluted share. On the same basis, we now project that we will meet or exceed our previously projected free cash flow range of $1.30 to $1.40 billion for the full-year 2007."

(a) This earnings release contains a discussion of non-GAAP measures, as defined in Regulation G of the Securities Exchange Act of 1934, as amended. The Company reports its financial results in compliance with GAAP, but believes that also discussing non-GAAP measures provides investors with (i) additional, meaningful comparisons of current results to prior periods' results by excluding items that the Company does not believe reflect its fundamental business performance and (ii) financial measures the Company uses in the management of its business. GAAP measures that have been adjusted to exclude the impact of certain unusual, non-recurring or otherwise non-operational items include:

- Earnings per diluted share;
- Net income;
- Income from operations as a percentage of revenue;
- Comparative changes in revenue;
- Effective tax rate; and
- Projected earnings per diluted share.

The Company also discusses free cash flow and projected free cash flow, which are non-GAAP measures, 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. 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.

Except for projected earnings per diluted share, discussed below, and the comparative change in adjusted revenue, which is reconciled in the text of this release, the 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 full year adjusted earnings of $2.07 to $2.11 per diluted share projected by the Company excludes (i) the first quarter 2007 impact of restructuring charges of $6 million after tax; (ii) the 2007 year-to-date impact of $40 million associated with income tax benefits; and (iii) the second quarter net $18 million in after-tax gains from the divestiture of certain operations. GAAP net earnings per diluted share for the remaining two quarters of the year may include restructuring charges, asset impairment and unusual items charges, gains or losses from divestitures, the resolution of income tax items, and other items that are not currently determinable, but may be significant, such as the financial impact of the labor action in the Oakland, California area. The full year 2007 adjusted earnings of $2.07 to $2.11 per diluted share projected today excludes the impact of any such items that may occur. GAAP net earnings per diluted share projected for the full year would require inclusion of the projected impact of any expected items. Due to the uncertainty of the amount and timing of any such items, we do not believe we have the information available to provide projected full year GAAP net earnings per diluted share and the quantitative reconciliation to our current adjusted earning per diluted share projection.

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 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 "2Q2007 Earnings Report Webcast." You may also listen to the analyst 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 4344708." 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 noon. Central time on July 31 through 5:00 p.m. Central time on August 14. 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 4344708.

Waste Management, Inc., based in Houston, Texas, is the leading provider of comprehensive waste management services in North America. Through its subsidiaries, the Company provides collection, transfer, recycling and resource recovery, and disposal services. It is also a leading developer, operator and owner of waste-to-energy and landfill gas-to-energy facilities in the United States. The Company's 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 2007 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 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; reducing costs due to our operational improvement programs; and divesting under-performing assets and purchasing accretive businesses, any of which could negatively affect our revenues and margins;*
- *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;*
- *inflation and resulting higher interest rates as well as other general and local economic conditions may negatively affect the volumes of waste generated, our financing costs and other expenses;*

- *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, including regulations to limit greenhouse gas emissions, may negatively impact our business by, among other things, restricting our operations, increasing costs of operations or requiring additional capital expenditures;*
- *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, cross-border, or certain categories of waste, as well as mandates on the disposal of waste, can increase our expenses and reduce our revenues;*
- *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, or restrict our ability to operate;*
- *increased costs to obtain financial assurance or the inadequacy of our insurance coverages 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;*
- *fluctuating commodity prices may have negative effects on our operating revenues and expenses;*
- *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;*
- *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 been 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;*
- *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;*
- *problems with the operation of our current information technology or the development and deployment of new information systems may decrease our efficiencies and increase our costs to operate;*
- *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; and*
- *we may reduce or eliminate our dividend or share repurchase program or we may need to raise 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, 2006.

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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