

WASTE MANAGEMENT INC
Form 10-Q
April 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2016

**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 Street

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

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of Common Stock, \$0.01 par value, of the registrant outstanding at April 18, 2016 was 444,261,668 (excluding treasury shares of 186,020,793).

PART I.

Item 1. *Financial Statements.*

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

| | March 31, 2016 (Unaudited) | December 31, 2015 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 104 | \$ 39 |
| Accounts receivable, net of allowance for doubtful accounts of \$26 and \$25, respectively | 1,532 | 1,549 |
| Other receivables | 456 | 545 |
| Parts and supplies | 92 | 92 |
| Other assets | 118 | 120 |
| Total current assets | 2,302 | 2,345 |
| Property and equipment, net of accumulated depreciation and amortization of \$16,597 and \$16,420, respectively | 10,796 | 10,665 |
| Goodwill | 6,215 | 5,984 |
| Other intangible assets, net | 645 | 477 |
| Investments in unconsolidated entities | 371 | 360 |
| Other assets | 452 | 536 |
| Total assets | \$ 20,781 | \$ 20,367 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 591 | \$ 721 |
| Accrued liabilities | 980 | 1,064 |
| Deferred revenues | 465 | 472 |
| Current portion of long-term debt | 524 | 253 |
| Total current liabilities | 2,560 | 2,510 |
| Long-term debt, less current portion | 9,072 | 8,676 |
| Deferred income taxes | 1,438 | 1,391 |
| Landfill and environmental remediation liabilities | 1,606 | 1,584 |
| Other liabilities | 795 | 839 |
| Total liabilities | 15,471 | 15,000 |
| 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 | 4,795 | 4,827 |
| Retained earnings | 7,012 | 6,939 |
| Accumulated other comprehensive income (loss) | (58) | (127) |

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Treasury stock at cost, 185,558,853 and 183,105,326 shares, respectively | (6,465) | (6,300) |
| Total Waste Management, Inc. stockholders' equity | 5,290 | 5,345 |
| Noncontrolling interests | 20 | 22 |
| Total equity | 5,310 | 5,367 |
| Total liabilities and equity | \$ 20,781 | \$ 20,367 |

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions, Except per Share Amounts)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2016 | 2015 |
| Operating revenues | \$ 3,176 | \$ 3,040 |
| Costs and expenses: | | |
| Operating | 1,993 | 1,946 |
| Selling, general and administrative | 362 | 348 |
| Depreciation and amortization | 312 | 292 |
| Restructuring | 2 | 1 |
| (Income) expense from divestitures, asset impairments and unusual items | (1) | 13 |
| | 2,668 | 2,600 |
| Income from operations | 508 | 440 |
| Other income (expense): | | |
| Interest expense, net | (95) | (104) |
| Loss on early extinguishment of debt | (1) | (550) |
| Equity in net losses of unconsolidated entities | (7) | (8) |
| Other, net | (9) | |
| | (112) | (662) |
| Income (loss) before income taxes | 396 | (222) |
| Provision for (benefit from) income taxes | 140 | (91) |
| Consolidated net income (loss) | 256 | (131) |
| Less: Net income (loss) attributable to noncontrolling interests | (2) | (2) |
| Net income (loss) attributable to Waste Management, Inc. | \$ 258 | \$ (129) |
| Basic earnings (loss) per common share | \$ 0.58 | \$ (0.28) |
| Diluted earnings (loss) per common share | \$ 0.58 | \$ (0.28) |
| Cash dividends declared per common share | \$ 0.41 | \$ 0.385 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Millions)

(Unaudited)

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2016 | 2015 |
| Consolidated net income (loss) | \$ 256 | \$ (131) |
| Other comprehensive income (loss), net of taxes: | | |
| Derivative instruments, net | 7 | 3 |
| Available-for-sale securities, net | 1 | |
| Foreign currency translation adjustments | 61 | (76) |
| Other comprehensive income (loss), net of taxes | 69 | (73) |
| Comprehensive income (loss) | 325 | (204) |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (2) | (2) |
| Comprehensive income (loss) attributable to Waste Management, Inc. | \$ 327 | \$ (202) |

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Consolidated net income (loss) | \$ 256 | \$ (131) |
| Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 312 | 292 |
| Deferred income tax provision | 32 | 38 |
| Interest accretion on landfill liabilities | 22 | 21 |
| Interest accretion on and discount rate adjustments to environmental remediation liabilities and recovery assets | 1 | 1 |
| Provision for bad debts | 11 | 12 |
| Equity-based compensation expense | 30 | 20 |
| Excess tax benefits associated with equity-based transactions | (7) | (7) |
| Net gain from disposal of assets | (5) | (7) |
| Effect of (income) expense from divestitures, asset impairments and unusual items and other, net | (1) | 13 |
| Equity in net losses of unconsolidated entities, net of dividends | 7 | 8 |
| Loss on early extinguishment of debt | 1 | 550 |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Receivables | 111 | (59) |
| Other current assets | (11) | (4) |
| Other assets | 75 | (19) |
| Accounts payable and accrued liabilities | (109) | (195) |
| Deferred revenues and other liabilities | (19) | (34) |
| Net cash provided by operating activities | 706 | 499 |
| Cash flows from investing activities: | | |
| Acquisitions of businesses, net of cash acquired | (537) | (445) |
| Capital expenditures | (317) | (233) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 13 | 19 |
| Net receipts from restricted trust and escrow accounts | - | 34 |
| Other, net | (6) | (3) |
| Net cash used in investing activities | (847) | (628) |
| Cash flows from financing activities: | | |
| New borrowings | 1,301 | 1,817 |
| Debt repayments | (647) | (2,029) |
| Premiums paid on early extinguishment of debt | (1) | (554) |
| Common stock repurchases | (250) | - |
| Cash dividends | (183) | (176) |
| Exercise of common stock options | 18 | 39 |
| Excess tax benefits associated with equity-based transactions | 7 | 7 |
| Other, net | (39) | (2) |
| Net cash provided by (used in) financing activities | 206 | (898) |
| Effect of exchange rate changes on cash and cash equivalents | - | (3) |

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

| | | |
|--|--------|---------|
| Increase (decrease) in cash and cash equivalents | 65 | (1,030) |
| Cash and cash equivalents at beginning of period | 39 | 1,307 |
| Cash and cash equivalents at end of period | \$ 104 | \$ 277 |

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In Millions, Except Shares in Thousands)

(Unaudited)

| | Waste Management, Inc. Stockholders' Equity | | | | | | | | |
|--|---|--------------|---------|----------------------------|----------|-------------------|---|----------------|-----------|
| | Total | Common Stock | | Additional Paid-In Capital | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | |
| | | Shares | Amounts | Capital | Earnings | | Shares | Amounts | Interests |
| Balance, December 31, 2015 | \$ 5,367 | 630,282 | \$ 6 | \$ 4,827 | \$ 6,939 | \$ (127) | (183,105) | \$ (6,300) | \$ 22 |
| Consolidated net income (loss) | 256 | | | | 258 | | | | (2) |
| Other comprehensive income (loss), net of taxes | 69 | | | | | 69 | | | |
| Cash dividends declared | (183) | | | | (183) | | | | |
| Equity-based compensation transactions, including dividend equivalents, net of taxes | 51 | | | (2) | (2) | | 1,596 | 55 | |
| Common stock repurchases | (250) | | | (30) | | | (4,051) | (220) | |
| Other, net | | | | | | | 1 | | |
| Balance, March 31, 2016 | \$ 5,310 | 630,282 | \$ 6 | \$ 4,795 | \$ 7,012 | \$ (58) | (185,559) | \$ (6,465) | \$ 20 |

See notes to Condensed Consolidated Financial Statements.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The financial statements presented in this report represent the consolidation of Waste Management, Inc., a Delaware corporation, and Waste Management's wholly-owned and majority-owned subsidiaries. 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. and its consolidated subsidiaries. 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 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. We also provide additional services that are not managed through our Solid Waste business, which are presented in this report as Other. Additional information related to our segments can be found in Note 8.

The Condensed Consolidated Financial Statements as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 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, 2015.

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.

Adoption of New Accounting Standards

Debt Issuance Costs In April 2015, and as subsequently amended, the Financial Accounting Standards Board (FASB) amended authoritative guidance associated with debt issuance costs which were previously presented as assets related to recognized debt liabilities. The amended guidance requires that debt issuance costs, other than those costs related to line of credit arrangements, be presented on the balance sheet as a direct deduction from the related debt liability, which is similar to the presentation for debt discounts and premiums. This guidance was effective for the Company on January 1, 2016. The Company's adoption of this guidance was applied retrospectively and resulted in a reclassification of \$52 million of such costs in our Condensed Consolidated Balance Sheet at December 31, 2015.

Consolidation In February 2015, the FASB amended authoritative guidance associated with consolidation. The amended guidance makes changes to existing consolidation requirements associated with the

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities, including limited partnerships and variable interest entities. The guidance was effective for the Company on January 1, 2016. The Company's adoption of this guidance did not impact 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.

2. Landfill and Environmental Remediation Liabilities

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

| | March 31, 2016 | | | December 31, 2015 | | |
|----------------------------------|----------------|---------------------------|----------|-------------------|---------------------------|----------|
| | Landfill | Environmental Remediation | Total | Landfill | Environmental Remediation | Total |
| Current (in accrued liabilities) | \$ 110 | \$ 32 | \$ 142 | \$ 112 | \$ 31 | \$ 143 |
| Long-term | 1,431 | 175 | 1,606 | 1,406 | 178 | 1,584 |
| | \$ 1,541 | \$ 207 | \$ 1,748 | \$ 1,518 | \$ 209 | \$ 1,727 |

The changes to landfill and environmental remediation liabilities for the three months ended March 31, 2016 are reflected in the table below (in millions):

| | Landfill | Environmental Remediation |
|--|----------|---------------------------|
| December 31, 2015 | \$ 1,518 | \$ 209 |
| Obligations incurred and capitalized | 13 | |
| Obligations settled | (15) | (5) |
| Interest accretion | 22 | 1 |
| Revisions in estimates and interest rate assumptions | (1) | 2 |
| Acquisitions, divestitures and other adjustments | 4 | |
| March 31, 2016 | \$ 1,541 | \$ 207 |

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

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 March 31, 2016:

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|----------------------|
| \$2.25 billion revolving credit facility, maturing July 2020 (weighted average interest rate of 1.4% at March 31, 2016) | \$ 458 | \$ 20 |
| Letter of credit facilities, maturing through December 2018 | | |
| Canadian credit facility and term loan, maturing March 2019 (weighted average effective interest rate of 2.0% at March 31, 2016 and 2.2% at December 31, 2015) | 353 | 84 |
| Senior notes maturing through 2045, interest rates ranging from 2.60% to 7.75% (weighted average interest rate of 4.7% at March 31, 2016 and December 31, 2015) | 6,039 | 6,050 |
| Tax-exempt bonds, maturing through 2045, fixed and variable interest rates ranging from 0.4% to 5.7% (weighted average interest rate of 2.0% at March 31, 2016 and 1.9% at December 31, 2015) | 2,418 | 2,447 |
| Capital leases and other, maturing through 2055, interest rates up to 12% | 328 | 328 |
| | 9,596 | 8,929 |
| Current portion of long-term debt | 524 | 253 |
| | \$ 9,072 | \$ 8,676 |

Debt Classification

As of March 31, 2016, we had \$1,140 million of debt with stated maturities within 12 months and \$381 million of tax-exempt bonds with term interest rate periods scheduled to expire within the next 12 months. Under U.S. Generally Accepted Accounting Principles (GAAP), these debt balances must be reported as Current portion of long-term debt unless the Company intends and has the ability to refinance the debt on a long-term basis. We have classified \$997 million of these debt balances as long-term as of March 31, 2016 and the remaining \$524 million is classified as current obligations. The classification of these debt balances as long-term is based on the following:

The Company intends to refinance the \$500 million of 2.6% senior notes that mature in September 2016 on a long-term basis either by issuing new debt or by utilizing the forecasted available capacity of our long-term U.S. revolving credit facility (\$2.25 billion revolving credit facility).

The Company generally uses available cash to repay borrowings outstanding under the \$2.25 billion revolving credit facility and any remaining balances are maintained by extending the maturities of the borrowings. Our current projections indicate that the Company will maintain \$116 million of the \$458 million of outstanding borrowings for the next 12 months.

The Company expects to successfully remarket the \$381 million of tax-exempt bonds with term interest rate periods expiring within the next 12 months. In the event of a failed remarketing, we have the intent and ability to use availability under our \$2.25 billion revolving credit facility to fund the debt obligations until they can be remarketed successfully.

As of March 31, 2016, we also had \$491 million of variable-rate tax-exempt bonds that are supported by letters of credit. The interest rates on these bonds are reset on either a daily or weekly basis through a

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

remarketing process. All recent remarketings have successfully placed Company bonds with investors at reasonable, market-driven rates and we currently expect future remarketings to be successful. However, if the remarketing agent is unable to remarket our bonds, the remarketing agent can put the bonds to us. In the event of a failed remarketing, we have the intent and ability to use availability under our \$2.25 billion revolving credit facility to fund the debt obligations until they can be remarketed successfully. Accordingly, we classified these borrowings as long-term in our Condensed Consolidated Balance Sheet at March 31, 2016.

Access to and Utilization of Credit Facilities

\$2.25 Billion Revolving Credit Facility and Other Letter of Credit Facilities As of March 31, 2016, we had an aggregate committed capacity of \$2.4 billion for letters of credit under various U.S. credit facilities. Our \$2.25 billion revolving credit facility expires in July 2020 and is our primary source of letter of credit capacity. Our remaining committed letter of credit capacity is provided under facilities with terms extending through December 2018. As of March 31, 2016, we had an aggregate of \$965 million of letters of credit outstanding under various credit facilities. As of March 31, 2016, we had \$458 million of outstanding borrowings under our \$2.25 billion revolving credit facility and \$815 million of letters of credit issued and supported by the facility, leaving \$977 million of unused and available capacity.

Canadian Credit Facility and Term Loan In March 2016, we amended and restated our Canadian credit agreement, decreasing the revolving credit capacity, increasing the amount of term credit, and extending the term through March 2019. Waste Management of Canada Corporation and WM Quebec Inc., wholly-owned subsidiaries of WM, are borrowers under the agreement. The amended and restated credit agreement provides the Company (i) C\$50 million of revolving credit capacity, which can be used for borrowings or letters of credit, and (ii) C\$460 million of non-revolving term credit that is prepayable without penalty. Prior to closing, there was a balance of C\$90 million remaining on the prior C\$500 million term loan. Upon closing, the term loan was fully drawn to repay the indebtedness owed under the prior Canadian credit agreement and to repay C\$370 million of intercompany debt, which is further discussed below in Note 4. At no time during the three months ended March 31, 2016, did we have borrowings or letters of credit outstanding under the revolving credit agreement.

Debt Borrowings and Repayments

\$2.25 Billion Revolving Credit Facility During the three months ended March 31, 2016, we had net borrowings of \$438 million under our \$2.25 billion revolving credit facility. The proceeds from these borrowings were generally used to support our acquisition of certain operations and business assets of Southern Waste Systems/Sun Recycling (SWS) in Southern Florida. For additional information related to this acquisition, refer to Note 9.

Canadian Term Loan During the three months ended March 31, 2016, we repaid C\$27 million, or \$20 million, of net advances under our prior Canadian term loan reducing the balance to C\$90 million at the time of the amendment and restatement of the credit agreement. Upon closing the new Canadian credit agreement, we borrowed C\$460 million, or \$347 million, to repay the prior term loan and to allow our Canadian subsidiaries to repay C\$370 million, or \$280 million, of intercompany debt. The remaining increase in the carrying value of borrowings outstanding is due to foreign currency translation.

Senior Notes During the first quarter of 2016, we repaid \$10 million of our \$600 million 6.1% senior notes due 2018 through an open market purchase. We recognized a \$1 million pre-tax loss on early extinguishment of debt related to this transaction.

Tax-Exempt Bonds We repaid \$30 million of our tax-exempt bonds at their scheduled maturity with available cash during the three months ended March 31, 2016.

WASTE MANAGEMENT, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Senior Notes Refinancing*

In the first quarter of 2015, we recognized a pre-tax loss of \$550 million associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through make whole redemption and cash tender offers. We replaced substantially all of the debt extinguished with new senior notes at significantly lower coupon interest rates and extended the weighted average duration of these debt obligations.

4. Derivative Instruments and Hedging Activities*Cash Flow Hedges**Foreign Currency Derivatives*

As of December 31, 2015, we had foreign exchange cross currency swaps outstanding for all of the anticipated cash flows associated with C\$370 million of intercompany debt between WM Holdings and its wholly-owned Canadian subsidiaries. As discussed in Note 3, in March 2016, our Canadian subsidiaries repaid the intercompany debt with proceeds from our Canadian term loan. Concurrent with the repayment of the intercompany debt, we terminated the foreign exchange cross currency swaps and received \$67 million in cash. The cash received from our termination of the swaps has been classified as a change in Other current assets and Other assets within Net cash provided by operating activities in the Condensed Consolidated Statement of Cash Flows. In addition, we recognized \$8 million of expense associated with the termination of these swaps which was included in Other, net in the Condensed Consolidated Statement of Operations.

These cross currency swaps had been designated as cash flow hedges and as of December 31, 2015, the carrying value of the hedge position was reflected in our Condensed Consolidated Balance Sheet as \$15 million of current other assets and \$63 million of long-term other assets. Through March 2016 when the intercompany loans and the related hedges were terminated, gains or losses resulting from the remeasurement of the underlying non-functional currency intercompany loans were recognized in current earnings in the same financial statement line item as the offsetting gains or losses on the related cross currency swaps. There was no significant ineffectiveness associated with our cash flow hedges during the reported periods.

Forward-Starting Interest Rate Swaps

At March 31, 2016 and December 31, 2015, our Accumulated other comprehensive income (loss) included \$41 million and \$43 million, respectively, of after-tax deferred losses related to terminated swaps, which are being amortized as an increase to interest expense using the effective interest method over the ten-year terms of the related senior notes, which extend through 2024. As of March 31, 2016, \$11 million of the deferred losses for these previously terminated swaps (on a pre-tax basis) is scheduled to be reclassified as an increase to interest expense over the next 12 months.

Refer to Note 11 for information regarding the impacts of our cash flow derivatives on our comprehensive income and results of operations.

*Fair Value Hedges**Interest Rate Swaps*

We did not have any interest rate swaps outstanding during the reported periods. However, in prior years, we entered into interest rate swaps to maintain a portion of our debt obligations at variable market interest rates and 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 \$21 million and \$23 million as of March 31, 2016 and December 31, 2015, respectively. The remaining fair value adjustments to long-term debt are being amortized as a reduction to interest expense using the effective interest

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 \$2 million for both the three months ended March 31, 2016 and 2015.

5. Income Taxes

Our effective income tax rate for the three months ended March 31, 2016 and 2015 was 35.4% of income before income taxes and 41.0% of the loss before income taxes, respectively. 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 months ended March 31, 2016 was primarily due to the unfavorable impact of state and local income taxes offset by the favorable impact of federal tax credits. The difference between federal income taxes computed at the federal statutory rate and reported income taxes for the three months ended March 31, 2015 was primarily due to the impact of loss on early extinguishment of debt and federal tax credits.

Investment in Refined Coal Facility In 2011, we acquired a noncontrolling interest in a limited liability company 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 Statements of Operations. We recognized \$1 million of net losses resulting from our share of the entity's operating losses during both the three months ended March 31, 2016 and 2015. Our tax provision was reduced by \$4 million for both the three months ended March 31, 2016 and 2015, primarily as a result of tax credits realized from this investment. See Note 14 for additional information related to this investment.

Investment in Low-Income Housing Properties In 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 Statements of Operations. The value of our investment decreases as the tax credits are generated and utilized. During the three months ended March 31, 2016 and 2015, we recognized \$5 million and \$6 million, respectively, of net losses relating to our equity investment in this entity and \$1 million of interest expense for both periods. During the three months ended March 31, 2016 and 2015, we recognized a reduction in our tax provision of \$7 million (including \$5 million of tax credits) and \$7 million (including \$4 million of tax credits), respectively. See Note 14 for additional information related to this investment.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Earnings Per Share

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2016 | 2015 |
| Number of common shares outstanding at end of period | 444.7 | 457.8 |
| Effect of using weighted average common shares outstanding | 1.4 | 0.7 |
| Weighted average basic common shares outstanding | 446.1 | 458.5 |
| Dilutive effect of equity-based compensation awards and other contingently issuable shares | 2.5 | |
| Weighted average diluted common shares outstanding | 448.6 | 458.5 |
| Potentially issuable shares | 11.2 | 11.5 |
| Number of anti-dilutive potentially issuable shares excluded from diluted common shares outstanding | 2.5 | 11.5 |

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 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. 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.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

We also have guaranteed the obligations and certain performance requirements of, and provided indemnification to, third parties in connection with both consolidated and unconsolidated entities. Guarantee agreements outstanding as of March 31, 2016 (excluding those related to Wheelabrator obligations that are discussed below) include (i) guarantees of unconsolidated entities' financial obligations maturing through 2020 for maximum future payments of \$7 million and (ii) agreements guaranteeing certain market value losses for approximately 850 homeowners' properties adjacent to or near 21 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.

In December 2014, we sold our Wheelabrator business, which provides waste-to-energy services and manages waste-to-energy facilities and independent power production plants. Before the divestiture of our Wheelabrator business, WM had guaranteed certain operational and financial performance obligations of Wheelabrator and its subsidiaries in the ordinary course of business. In conjunction with the divestiture, certain WM guarantees of Wheelabrator obligations were terminated, but others continued and are now guarantees of third-party obligations. Wheelabrator is working with the various third-party beneficiaries to release WM from these guarantees, but until they are successful, WM has agreed to retain the guarantees and, in exchange, receive a credit support fee. The most significant of these guarantees specifically define WM's maximum financial obligation over the course of the relevant agreements, and as of December 31, 2015, WM's maximum future payments associated with those guarantees were \$106 million. WM's exposure under certain of the performance guarantees is variable and a maximum exposure is not defined. We have recorded the fair value of the operational and financial performance guarantees, some of which could extend through 2038 if not terminated, in our Condensed Consolidated Balance Sheets. The estimated fair value of WM's potential obligation associated with guarantees of Wheelabrator obligations (net of credit support fee) at both March 31, 2016 and December 31, 2015 was \$13 million. We currently do not expect the financial impact of such operational and financial performance guarantees to materially exceed the recorded fair value.

Environmental Matters A significant portion of our operating costs and capital expenditures could be characterized as costs of environmental protection. The nature of our operations, particularly with respect to the construction, operation and maintenance of our landfills, subjects us 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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 \$207 million recorded in the Condensed Consolidated Financial Statements as of March 31, 2016. Our ultimate responsibility may differ materially from current estimates. It is possible that technological, regulatory or enforcement developments, the results of environmental studies, the inability to identify other PRPs, the inability of other PRPs to contribute to the settlements of such liabilities, or other factors could require us to record additional liabilities. Our ongoing review of our remediation liabilities, in light of relevant internal and external facts and circumstances, could result in revisions to our accruals that could cause upward or downward adjustments to income from operations. These adjustments could be material in any given period.

As of March 31, 2016, 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, 15 are sites we own. Each of the NPL sites we own was initially developed by others as a landfill disposal facility. At each of these facilities, we are working in conjunction with the government to 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 60 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 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.

On July 10, 2015, Waste Management of Hawaii, Inc. (WMHI) entered a plea resolving the April 30, 2014 indictment against WMHI in connection with water discharges at the Waimanalo Gulch Sanitary Landfill, which WMHI operates for the city and county of Honolulu, following three major rainstorms in December 2010 and January 2011. WMHI may face civil claims from the Hawaii Department of Health or the EPA based on the same underlying events, but we do not anticipate such claims could have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

Litigation On March 26, 2015, the Company acquired Deffenbaugh Disposal Inc. (Deffenbaugh). In May 2012 and December 2013, Deffenbaugh was named as a defendant in purported class actions filed in the United States District Court for the District of Kansas. These cases pertained to fuel, environmental and base rate charges included on invoices, generally alleging that such charges were not properly disclosed, were unfair or were contrary to the customer service contracts. We have agreed on settlement terms for both cases. We

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

submitted a request for preliminary court approval during the fourth quarter of 2015 and are awaiting action on our request. The anticipated settlements will not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

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 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 or was 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, the Company has direct contractual obligations to provide indemnification to each of the members of WM's Board of Directors and each of our executive officers and senior vice presidents. 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 defined benefit 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

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain operations) may also trigger a complete or partial withdrawal from one or more of these pension plans. We do not believe that any future liability for withdrawals from the multiemployer defined benefit pension plans to which we contribute could have a material adverse effect on our business, financial condition or liquidity. However, liability for future 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 and the financial condition of the multiemployer defined benefit pension plan(s) at the time of such withdrawal(s).

Tax Matters 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 currently in the examination phase of IRS audits for the tax years 2014, 2015 and 2016 and expect these audits to be completed within the next three, 12 and 24 months, respectively. We are also currently undergoing audits by various state and local jurisdictions for tax years that date back to 2009, with the exception of affirmative claims in a limited number of jurisdictions that date back to 2000. We acquired Deffenbaugh, which is subject to potential IRS examination for the years 2012 through the date of acquisition in 2015. 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

We evaluate, oversee and manage the financial performance of our Solid Waste subsidiaries through our 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 are 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.

Annually, we analyze the Areas' income from operations margin for purposes of segment reporting and in the fourth quarter of 2015, we realigned our Solid Waste tiers to reflect changes in their relative economic characteristics and prospects. These changes are the results of various factors including acquisitions, divestments, business mix and the economic climate of various geographies. Reclassifications have been made to our prior period consolidated financial information in order to conform to the current year presentation.

Tier 1 is now comprised of our operations across the Southern United States, with the exception of Southern California and the Florida peninsula and also includes the New England states, the tri-state area of Michigan, Indiana and Ohio and Western Canada. Tier 2 includes Southern California, Eastern Canada, Wisconsin, Minnesota and a portion of the lower Mid-Atlantic region of the United States. Tier 3 encompasses all the remaining operations including the Pacific Northwest and Northern California, the majority of the Mid-Atlantic region of the United States, the Florida peninsula, Illinois and Missouri.

The operating segments not evaluated and overseen through the 17 Areas are presented herein as "Other" as these operating segments do not meet the criteria to be aggregated with other operating segments and do not meet the quantitative criteria to be separately reported.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

| | Gross Operating Revenues | Intercompany Operating Revenues | Net Operating Revenues | Income from Operations |
|----------------------------|--------------------------------|---------------------------------------|------------------------------|------------------------------|
| Three Months Ended: | | | | |
| March 31, 2016 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 1,241 | \$ (212) | \$ 1,029 | \$ 334 |
| Tier 2 | 781 | (142) | 639 | 145 |
| Tier 3 | 1,260 | (212) | 1,048 | 208 |
| Solid Waste | 3,282 | (566) | 2,716 | 687 |
| Other | 500 | (40) | 460 | (36) |
| | 3,782 | (606) | 3,176 | 651 |
| Corporate and Other | | | | (143) |
| Total | \$ 3,782 | \$ (606) | \$ 3,176 | \$ 508 |
| March 31, 2015 | | | | |
| Solid Waste: | | | | |
| Tier 1 | \$ 1,195 | \$ (190) | \$ 1,005 | \$ 296 |
| Tier 2 | 780 | (143) | 637 | 139 |
| Tier 3 | 1,122 | (180) | 942 | 178 |
| Solid Waste | 3,097 | (513) | 2,584 | 613 |
| Wheelabrator | | | | (7) |
| Other | 478 | (22) | 456 | (23) |
| | 3,575 | (535) | 3,040 | 583 |
| Corporate and Other | | | | (143) |
| Total | \$ 3,575 | \$ (535) | \$ 3,040 | \$ 440 |

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 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.

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, as a result of significant start-up costs and other factors, such revenue can generate earnings at comparatively lower margins.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Acquisitions

Southern Waste Systems/Sun Recycling On January 8, 2016, Waste Management Inc. of Florida, a wholly-owned subsidiary of WM, acquired certain operations and business assets of SWS in Southern Florida. The acquired business assets include residential, commercial, and industrial solid waste collection, processing/recycling and transfer operations, equipment, vehicles, real estate and customer agreements. Total consideration was \$525 million and is subject to standard post-closing adjustments. The acquisition was funded primarily with borrowings under our \$2.25 billion revolving credit facility. For the three months ended March 31, 2016, SWS recognized revenues of \$37 million and net income of \$1 million which are included in our Condensed Consolidated Statement of Operations.

Goodwill of \$250 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 Florida Area as it is expected to benefit from the synergies of the combination. Goodwill related to this acquisition is deductible for income tax purposes.

Deffenbaugh Disposal, Inc. On March 26, 2015, we acquired Deffenbaugh, one of the largest privately owned collection and disposal firms in the Midwest, for total consideration, net of cash acquired, of \$400 million. Deffenbaugh's assets include five collection operations, seven transfer stations, two recycling facilities, one subtitle-D landfill, and one construction and demolition landfill.

Goodwill of \$159 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 Areas that will be integrating these operations as they are expected to benefit from the synergies of the combination. Goodwill related to this acquisition is not deductible for income tax purposes.

The allocation of the purchase price for the Deffenbaugh acquisition is final. The allocation of the purchase price for the SWS acquisition is preliminary and subject to change based on the finalization of our detailed valuations. The following table presents the final allocation of the purchase price for Deffenbaugh and the acquisition date allocation of the purchase price for SWS (in millions):

| | Deffenbaugh | SWS |
|--|--------------------|------------|
| Cash and cash equivalents | \$ 15 | \$ |
| Accounts and other receivables | 22 | |
| Parts and supplies | 2 | |
| Deferred income tax asset | 11 | |
| Other current assets | 10 | |
| Property and equipment | 207 | 93 |
| Goodwill | 159 | 250 |
| Other intangible assets | 100 | 182 |
| Other assets | 1 | |
| Accounts payable | (2) | |
| Accrued liabilities | (20) | |
| Deferred revenues | (6) | |
| Landfill and environmental remediation liabilities | (18) | |
| Deferred income tax liability | (52) | |
| Other liabilities | (14) | |
| Total purchase price | \$ 415 | \$ 525 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the final and preliminary allocations of the purchase price for Deffenbaugh and SWS, respectively, to other intangible assets (amounts in millions, except for amortization periods):

| | Deffenbaugh | | SWS | |
|---|-------------|--|--------|--|
| | Amount | Weighted Average Amortization Periods (in Years) | Amount | Weighted Average Amortization Periods (in Years) |
| Customer relationships | \$ 94 | 15.0 | \$ 160 | 10.0 |
| Noncompete agreements | | | 18 | 5.0 |
| Trade name | 6 | 15.0 | 4 | 10.0 |
| Total other intangible assets subject to amortization | \$ 100 | 15.0 | \$ 182 | 9.5 |

The following pro forma consolidated results of operations have been prepared as if the acquisitions of Deffenbaugh and SWS occurred at January 1, 2015 (in millions, except per share amounts):

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2016 | 2015 |
| Operating revenues | \$ 3,178 | \$ 3,111 |
| Net income (loss) attributable to Waste Management, Inc. | 258 | (130) |
| Basic earnings (loss) per common share | 0.58 | (0.28) |
| Diluted earnings (loss) per common share | 0.58 | (0.28) |

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

In the first quarter of 2015 we recognized net charges of \$13 million, including \$7 million of post-closing adjustments associated with the sale of our Wheelabrator business in December 2014. In addition, we recognized a \$5 million impairment charge related to a landfill in our Western Canada Area.

11. Accumulated Other Comprehensive Income (Loss)

The changes in the balances of each component of accumulated other comprehensive income (loss), 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 decreases to accumulated other comprehensive income):

| Derivative Instruments | Available- for-Sale | Foreign Currency | Post- Retirement | Total |
|---------------------------|------------------------|---------------------|---------------------|-------|
|---------------------------|------------------------|---------------------|---------------------|-------|

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

| | | Securities | Translation Adjustments | Benefit Plans | |
|---|---------|------------|----------------------------|------------------|----------|
| Balance, December 31, 2015 | \$ (52) | \$ 8 | \$ (75) | \$ (8) | \$ (127) |
| Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$(4), \$0, \$0 and \$0, respectively | (7) | 1 | 61 | | 55 |
| Amounts reclassified from accumulated other comprehensive income, net of tax (expense) benefit of 9, \$0, \$0 and \$0, respectively | 14 | | | | 14 |
| Net current period other comprehensive income (loss) | 7 | 1 | 61 | | 69 |
| Balance, March 31, 2016 | \$ (45) | \$ 9 | \$ (14) | \$ (8) | \$ (58) |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amounts of other comprehensive income (loss) before reclassifications associated with the effective portion of derivatives designated as cash flow hedges are as follows (in millions):

| | Three Months Ended March 31, | |
|------------------------------|------------------------------|-------|
| | 2016 | 2015 |
| Foreign currency derivatives | \$ (11) | \$ 24 |
| Tax (expense) benefit | 4 | (9) |
| Net of tax | \$ (7) | \$ 15 |

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

| | Three Months Ended March 31, | | Statement of |
|--|------------------------------|--------|---------------------------|
| | 2016 | 2015 | Operations Classification |
| Gains and losses on cash flow hedges: | | | |
| Forward-starting interest rate swaps | \$ (3) | \$ (3) | Interest expense, net |
| Treasury rate locks | | (3) | Interest expense, net |
| Foreign currency derivatives | (20) | 26 | Other, net |
| | (23) | 20 | Total before tax |
| | 9 | (8) | Tax (expense) benefit |
| Total reclassifications for the period | \$ (14) | \$ 12 | Net of tax |

12. Share Repurchases

Our share repurchases have been made in accordance with financial plans approved by our Board of Directors. The Company entered into an accelerated share repurchase (ASR) agreement in December 2015 to repurchase \$150 million of our common stock in early 2016. In January 2016, we delivered \$150 million in cash and received 2.0 million shares based on a stock price of \$53.37. The ASR agreement completed in February 2016, at which time we received 0.9 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$53.15.

In March 2016, the Company entered into an ASR agreement to repurchase an additional \$100 million of our common stock. At the beginning of the ASR repurchase period, we delivered \$100 million in cash and received 1.2 million shares based on a stock price of \$56.95. The ASR agreement completed in April 2016, at which time we received 0.5 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$58.33.

After completion of these two ASRs, the Company has authorization for \$900 million of future share repurchases.

Each ASR agreement was accounted for as two separate transactions: (i) as shares of reacquired common stock for the shares delivered to us upon effectiveness of the ASR agreements and (ii) as a forward contract indexed to our own common stock for the undelivered shares. The initial delivery of shares is included in treasury stock at cost and resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share. The forward contracts indexed to our own stock met the criteria for equity classification, and these amounts are initially recorded in additional paid-in capital and reclassified to treasury stock upon

completion of the ASR agreement.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Any future share repurchases pursuant to the authorization of our Board of Directors will be made at the discretion of management.

13. Fair Value Measurements*Assets and Liabilities Accounted for at Fair Value*

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

| | Total | Fair Value Measurements at March 31, 2016 Using | | |
|-------------------------------|--------|--|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3)(a) |
| Assets: | | | | |
| Money market funds | \$ 34 | \$ 34 | \$ | \$ |
| Available-for-sale securities | 44 | | 44 | |
| Fixed-income securities | 41 | | 41 | |
| Redeemable preferred stock | 48 | | | 48 |
| Total assets | \$ 167 | \$ 34 | \$ 85 | \$ 48 |

| | Total | Fair Value Measurements at December 31, 2015 Using | | |
|---------------------------------|--------|--|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3)(a) |
| Assets: | | | | |
| Money market funds | \$ 35 | \$ 35 | \$ | \$ |
| Available-for-sale securities | 43 | | 43 | |
| Fixed-income securities | 40 | | 40 | |
| Foreign currency derivatives(b) | 78 | | 78 | |
| Redeemable preferred stock | 47 | | | 47 |
| Total assets | \$ 243 | \$ 35 | \$ 161 | \$ 47 |

- (a) When available, 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. When this evidence is not available, we use other valuation techniques as appropriate.

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

and available. These valuation methodologies may include transactions in similar instruments, discounted cash flow techniques, third-party appraisals or industry multiples and public comparables. There has not been any significant change in the fair value of the redeemable preferred stock since our assessment at December 31, 2015.

(b) In March 2016, we terminated our foreign currency derivatives. Refer to Note 4 for additional information.

Fair Value of Debt

At March 31, 2016 and December 31, 2015, the carrying value of our debt was approximately \$9.6 billion and \$8.9 billion, respectively. The carrying value of our debt includes adjustments associated with fair value hedge accounting related to our interest rate swaps as discussed in Note 4.

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated fair value of our debt was approximately \$10.1 billion and \$9.2 billion at March 31, 2016 and December 31, 2015, respectively. 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 senior notes and other debt is estimated using discounted cash flow analysis, based on current market rates for similar types of instruments. The increase in the fair value of our debt when comparing March 31, 2016 with December 31, 2015 is primarily related to \$654 million of net borrowings during 2016, as well as increases in the fair value attributable to recent decreases in long-term interest rates.

Although we have determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The fair value estimates are based on Level 2 inputs of the fair value hierarchy available as of March 31, 2016 and December 31, 2015. These amounts have not been revalued since those dates, and current estimates of fair value could differ significantly from the amounts presented.

14. Variable Interest Entities

Following is a description of our financial interests in variable interest entities that we consider significant, including (i) those that represent a significant interest in an unconsolidated entity and (ii) trusts for final capping, closure, post-closure or environmental remediation obligations.

Significant Unconsolidated Variable Interest Entities

Investment in Refined Coal Facility In 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 March 31, 2016 and December 31, 2015, our investment balance was \$32 million and \$29 million, respectively, representing our 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 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 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 March 31, 2016 and December 31, 2015, our investment balance was \$75 million and \$81 million, respectively, and our debt balance was \$74 million and \$80 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.

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 certain 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 Sheets. 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 (loss). These trusts had a fair value of \$94 million at both March 31, 2016 and December 31, 2015. 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 Sheets, as appropriate. Our investments and receivables related to these trusts had an aggregate carrying value of \$93 million at both March 31, 2016 and December 31, 2015.

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)

15. Condensed Consolidating Financial Statements

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

CONDENSED CONSOLIDATING BALANCE SHEETS

March 31, 2016

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------|-------------|----------------------------|--------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 4 | \$ 6 | \$ 104 | \$ | \$ 104 |
| Other current assets | 4 | 6 | 2,188 | | 2,198 |
| | 4 | 6 | 2,292 | | 2,302 |
| Property and equipment, net | | | 10,796 | | 10,796 |
| Investments in and advances to affiliates | 18,861 | 19,285 | 7,401 | (45,547) | |
| Other assets | 18 | 29 | 7,636 | | 7,683 |
| Total assets | \$ 18,883 | \$ 19,320 | \$ 28,125 | \$ (45,547) | \$ 20,781 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 341 | \$ | \$ 183 | \$ | \$ 524 |
| Accounts payable and other current liabilities | 60 | 4 | 1,972 | | 2,036 |
| | 401 | 4 | 2,155 | | 2,560 |
| Long-term debt, less current portion | 5,927 | 304 | 2,841 | | 9,072 |
| Due to affiliates | 7,250 | 151 | | (7,401) | |
| Other liabilities | 15 | | 3,824 | | 3,839 |
| Total liabilities | 13,593 | 459 | 8,820 | (7,401) | 15,471 |
| Equity: | | | | | |
| Stockholders' equity | 5,290 | 18,861 | 19,285 | (38,146) | 5,290 |
| Noncontrolling interests | | | 20 | | 20 |
| | 5,290 | 18,861 | 19,305 | (38,146) | 5,310 |
| Total liabilities and equity | \$ 18,883 | \$ 19,320 | \$ 28,125 | \$ (45,547) | \$ 20,781 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2015

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------|----------------|-------------------------------|--------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 3 | \$ 6 | \$ 39 | \$ | \$ 39 |
| Other current assets | 3 | 6 | 2,297 | | 2,306 |
| | 3 | 6 | 2,336 | | 2,345 |
| Property and equipment, net | | | 10,665 | | 10,665 |
| Investments in and advances to affiliates | 18,557 | 18,911 | 7,365 | (44,833) | |
| Other assets | 23 | 29 | 7,305 | | 7,357 |
| Total assets | \$ 18,583 | \$ 18,946 | \$ 27,671 | \$ (44,833) | \$ 20,367 |
| LIABILITIES AND EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 41 | \$ | \$ 212 | \$ | \$ 253 |
| Accounts payable and other current liabilities | 83 | 9 | 2,165 | | 2,257 |
| | 124 | 9 | 2,377 | | 2,510 |
| Long-term debt, less current portion | 5,801 | 304 | 2,571 | | 8,676 |
| Due to affiliates | 7,289 | 76 | | (7,365) | |
| Other liabilities | 24 | | 3,790 | | 3,814 |
| Total liabilities | 13,238 | 389 | 8,738 | (7,365) | 15,000 |
| Equity: | | | | | |
| Stockholders' equity | 5,345 | 18,557 | 18,911 | (37,468) | 5,345 |
| Noncontrolling interests | | | 22 | | 22 |
| | 5,345 | 18,557 | 18,933 | (37,468) | 5,367 |
| Total liabilities and equity | \$ 18,583 | \$ 18,946 | \$ 27,671 | \$ (44,833) | \$ 20,367 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2016

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|--------|-------------|----------------------------|--------------|--------------|
| Operating revenues | \$ | \$ | \$ 3,176 | \$ | \$ 3,176 |
| Costs and expenses | | | 2,668 | | 2,668 |
| Income from operations | | | 508 | | 508 |
| Other income (expense): | | | | | |
| Interest expense, net | (74) | (5) | (16) | | (95) |
| Loss on early extinguishment of debt | (1) | | | | (1) |
| Equity in earnings of subsidiaries, net of taxes | 304 | 307 | | (611) | |
| Other, net | | | (16) | | (16) |
| | 229 | 302 | (32) | (611) | (112) |
| Income (loss) before income taxes | 229 | 302 | 476 | (611) | 396 |
| Provision for (benefit from) income taxes | (29) | (2) | 171 | | 140 |
| Consolidated net income (loss) | 258 | 304 | 305 | (611) | 256 |
| Less: Net income (loss) attributable to noncontrolling interests | | | (2) | | (2) |
| Net income (loss) attributable to Waste Management, Inc. | \$ 258 | \$ 304 | \$ 307 | \$ (611) | \$ 258 |

Three Months Ended March 31, 2015

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-------|-------------|----------------------------|--------------|--------------|
| Operating revenues | \$ | \$ | \$ 3,040 | \$ | \$ 3,040 |
| Costs and expenses | | 6 | 2,594 | | 2,600 |
| Income from operations | | (6) | 446 | | 440 |
| Other income (expense): | | | | | |
| Interest expense, net | (79) | (7) | (18) | | (104) |
| Loss on early extinguishment of debt | (498) | (52) | | | (550) |
| Equity in earnings of subsidiaries, net of taxes | 231 | 273 | | (504) | |
| Other, net | | | (8) | | (8) |

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

| | | | | | |
|--|----------|--------|--------|----------|----------|
| | (346) | 214 | (26) | (504) | (662) |
| Income (loss) before income taxes | (346) | 208 | 420 | (504) | (222) |
| Provision for (benefit from) income taxes | (217) | (23) | 149 | | (91) |
| Consolidated net income (loss) | (129) | 231 | 271 | (504) | (131) |
| Less: Net income (loss) attributable to noncontrolling interests | | | (2) | | (2) |
| Net income (loss) attributable to Waste Management, Inc. | \$ (129) | \$ 231 | \$ 273 | \$ (504) | \$ (129) |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------|----------------|-------------------------------|--------------|--------------|
| <u>Three Months Ended March 31, 2016</u> | | | | | |
| Comprehensive income (loss) | \$ 260 | \$ 304 | \$ 372 | \$ (611) | \$ 325 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | | | (2) | | (2) |
| Comprehensive income (loss) attributable to Waste Management, Inc. | \$ 260 | \$ 304 | \$ 374 | \$ (611) | \$ 327 |
| <u>Three Months Ended March 31, 2015</u> | | | | | |
| Comprehensive income (loss) | \$ (125) | \$ 231 | \$ 194 | \$ (504) | \$ (204) |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | | | (2) | | (2) |
| Comprehensive income (loss) attributable to Waste Management, Inc. | \$ (125) | \$ 231 | \$ 196 | \$ (504) | \$ (202) |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2016

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|--------|----------------|-------------------------------|--------------|--------------|
| Cash flows from operating activities: | | | | | |
| Consolidated net income (loss) | \$ 258 | \$ 304 | \$ 305 | \$ (611) | \$ 256 |
| Equity in earnings of subsidiaries, net of taxes | (304) | (307) | | 611 | |
| Other adjustments | (20) | (6) | 476 | | 450 |
| Net cash provided by (used in) operating activities | (66) | (9) | 781 | | 706 |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | | | (537) | | (537) |
| Capital expenditures | | | (317) | | (317) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | | | 13 | | 13 |
| Net receipts from restricted trust and escrow accounts and other, net | | | (6) | | (6) |
| Net cash used in investing activities | | | (847) | | (847) |
| Cash flows from financing activities: | | | | | |
| New borrowings | 914 | | 387 | | 1,301 |
| Debt repayments | (487) | | (160) | | (647) |
| Premiums paid on early extinguishment of debt | (1) | | | | (1) |
| Common stock repurchases | (250) | | | | (250) |
| Cash dividends | (183) | | | | (183) |
| Exercise of common stock options | 18 | | | | 18 |
| Other, net | 7 | | (39) | | (32) |
| (Increase) decrease in intercompany and investments, net | 48 | 9 | (57) | | |
| Net cash provided by (used in) financing activities | 66 | 9 | 131 | | 206 |
| Effect of exchange rate changes on cash and cash equivalents | | | | | |
| Increase (decrease) in cash and cash equivalents | | | 65 | | 65 |
| Cash and cash equivalents at beginning of period | | | 39 | | 39 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ 104 | \$ | \$ 104 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Three Months Ended March 31, 2015

(Unaudited)

| | WM | WM Holdings | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------|----------------|-------------------------------|--------------|--------------|
| Cash flows from operating activities: | | | | | |
| Consolidated net income (loss) | \$ (129) | \$ 231 | \$ 271 | \$ (504) | \$ (131) |
| Equity in earnings of subsidiaries, net of taxes | (231) | (273) | | 504 | |
| Other adjustments | (23) | (10) | 663 | | 630 |
| Net cash provided by (used in) operating activities | (383) | (52) | 934 | | 499 |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired | | | (445) | | (445) |
| Capital expenditures | | | (233) | | (233) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | | | 19 | | 19 |
| Net receipts from restricted trust and escrow accounts and other, net | | | 31 | | 31 |
| Net cash used in investing activities | | | (628) | | (628) |
| Cash flows from financing activities: | | | | | |
| New borrowings | 1,781 | | 36 | | 1,817 |
| Debt repayments | (1,820) | (144) | (65) | | (2,029) |
| Premiums paid on early extinguishment of debt | (502) | (52) | | | (554) |
| Cash dividends | (176) | | | | (176) |
| Exercise of common stock options | 39 | | | | 39 |
| Other, net | 5 | | | | 5 |
| (Increase) decrease in intercompany and investments, net | (11) | 248 | (237) | | |
| Net cash provided by (used in) financing activities | (684) | 52 | (266) | | (898) |
| Effect of exchange rate changes on cash and cash equivalents | | | | | |
| | | | (3) | | (3) |
| Increase (decrease) in cash and cash equivalents | (1,067) | | 37 | | (1,030) |
| Cash and cash equivalents at beginning of period | 1,235 | | 72 | | 1,307 |
| Cash and cash equivalents at end of period | \$ 168 | \$ | \$ 109 | \$ | \$ 277 |

WASTE MANAGEMENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. New Accounting Standards Pending Adoption

Stock Compensation In March 2016, the FASB issued amended authoritative guidance associated with stock-based employee compensation as part of its simplification initiative to reduce the cost and complexity of compliance with GAAP while maintaining or improving the usefulness of the information provided. The amended guidance changes both the accounting and financial reporting for certain income tax impacts of stock-based compensation. All excess tax benefits and tax deficiencies will be required to be recognized as income tax benefit or expense rather than as a component of equity. The guidance also provides for changes in the calculation of forfeitures related to the expense of stock-based employee compensation. The amended authoritative guidance is effective for the Company on January 1, 2017, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements.

Leases In February 2016, the FASB amended authoritative guidance associated with lease accounting. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. The disclosure of key information about leasing arrangements will also be required. The amended authoritative guidance is effective for the Company on January 1, 2019, with early adoption permitted. We are in the process of assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements and disclosures.

Financial Instruments In January 2016, the FASB amended authoritative guidance associated with the recognition and measurement of financial assets and liabilities. The amended guidance will require certain equity investments that are not consolidated to be measured at fair value with changes in fair value recognized in net income rather than as a component of accumulated other comprehensive income. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. The adoption of this amended guidance will not have a material impact on our consolidated financial statements.

Revenue Recognition In May 2014, the 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 on January 1, 2018. 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 adoption. 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.

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, 2015.

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, 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 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 2016 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 while retaining and attracting customers may negatively affect our average yield on collection and disposal business;

we may fail in implementing or maintaining 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;

a key element of our strategy is yield management through focus on price leadership, which has presented challenges to keep existing business and win new business at reasonable returns; the loss of volumes as a result of price increases and our unwillingness to pursue lower margin volumes may negatively affect our cash flows or results of operations;

we may be unable to identify desirable acquisition targets, negotiate advantageous transactions or realize the benefits expected from such transactions, which could adversely impact our growth strategy, earnings and cash flow;

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;

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

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 operations; fluctuations in commodity prices may have negative effects on our operating results;

changes in oil and gas prices and drilling activity, and changes in applicable regulations, could adversely affect our Energy Services business;

increasing customer preference for alternatives to traditional disposal, government mandates supporting diversion of waste and 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 our landfills;

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 our profitability;

our existing and proposed service offerings to customers may require that we develop or license, and protect, new technologies; and our inability to obtain or protect new technologies could impact our services to customers and development of new revenue sources;

we are investing in emerging technologies to provide disposal alternatives; 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 and demand for post-consumer fiber and metals processed by our recycling operations;

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 natural gas and fueling infrastructure and vulnerable to natural gas prices; difficulty obtaining natural gas and increases in natural gas 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;

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

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; such risks could potentially result in injury or death of employees and others, a need to shut down or reduce operation of facilities, increased operating expense and exposure to liability for pollution and other environmental damage, and property damage or destruction;

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;

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;

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

We are North America's leading provider of comprehensive waste management 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 landfill gas-to-energy facilities in the United States.

Overview

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. Our Company and others have recognized the value of the traditional waste stream as a potential resource. Increasingly, customers want more of their waste materials recovered, while waste streams are becoming more complex, and our aim is to address, and anticipate, the current, expanding and evolving needs of our customers. 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 we are uniquely equipped to meet the challenges of the changing waste industry and our customers' waste management needs, both today and as we work together to envision and create a more sustainable future. As the waste industry leader, we have the expertise necessary to collect and handle our customers' waste efficiently and responsibly by delivering environmental performance maximizing resource

value, while minimizing environmental impact so that both our economy and our environment can thrive. Drawing on our resources and experience, we also pursue projects and initiatives that benefit the waste industry, the customers and communities we serve and the environment.

We remain dedicated to providing long-term value to our stockholders by successfully executing our strategy: to know and service our customers better than anyone in our industry, to extract more value from the materials we manage, and to innovate and optimize our business. We plan to accomplish our strategic goals through competitive advantages derived from operational improvements and focused differentiation in our industry, driven by capitalizing on our extensive, well-placed network of assets. While we will continue to monitor emerging diversion technologies that may generate additional value, our current attention will be on improving existing diversion technologies, such as our recycling operations.

In pursuit of these long-term goals, we recognize that we must grow the business, and do so as efficiently and cost effectively as possible. Accordingly, we are focusing on the following five key company priorities:

Customers: provide the best possible service to our customers;

Traditional Waste Business: continuously improve our operational performance;

Growth: take advantage of opportunities in our current business, as well as considering attractive acquisition opportunities;

Yield Management: remain focused on price leadership while considering competitive dynamics; and

Costs: minimize both operating costs and selling, general and administrative expenses.

We believe that execution of our strategy through these key priorities will drive continued financial performance and leadership in a dynamic industry.

Key items of our financial results for the current quarter include:

Revenues of \$3,176 million compared with \$3,040 million in the first quarter of 2015, an increase of \$136 million, or 4.5%. This increase in revenues is attributable to (i) acquisitions, which increased revenues by \$92 million, primarily due to the acquisitions of Deffenbaugh in March 2015 and SWS in January 2016; (ii) yield on our collection and disposal operations, which increased revenues by \$69 million; and (iii) higher volumes, which increased our revenues by \$57 million. These increases were partially offset by (i) lower fuel surcharges and mandated fees of \$32 million, primarily due to lower year-over-year average fuel prices; (ii) year-over-year recycling commodity price declines, which lowered revenues by \$21 million; (iii) foreign currency translation of \$18 million related to our Canadian operations; and (iv) divestitures, which decreased revenue by \$11 million;

Operating expenses of \$1,993 million, or 62.8% of revenues, compared with \$1,946 million, or 64.0% of revenues, in the first quarter of 2015. The margin expansion achieved reflects the contributions of our continued focus on price and operating efficiency. The \$47 million increase in expenses is primarily attributable to (i) the acquisitions of Deffenbaugh and SWS; (ii) higher volumes in the current year period; and (iii) increased landfill leachate disposal costs. These increases were partially offset by lower fuel costs primarily due to lower year-over-year average fuel prices;

Selling, general and administrative expenses of \$362 million, or 11.4% of revenues, compared with \$348 million, or 11.4% of revenues, in the first quarter of 2015. This increase of \$14 million is primarily attributable to (i) higher incentive compensation costs; (ii) increased headcount from our acquisitions of Deffenbaugh and SWS; and (iii) merit increases. These increases are partially offset by decreased legal fees;

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Income from operations of \$508 million, or 16.0% of revenues, compared with \$440 million, or 14.5% of revenues, in the first quarter of 2015; and

Net income attributable to Waste Management, Inc. of \$258 million, or \$0.58 per diluted share, as compared with the net loss of \$129 million, or \$0.28 per diluted share, in the first quarter of 2015. The year-over-year comparison has been significantly affected by the loss on early extinguishment of debt in the first quarter of 2015 discussed below.

Our first quarter of 2015 results were affected by the following:

The recognition of a pre-tax loss of \$550 million associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through a make-whole redemption and cash tender offer. We replaced substantially all of the debt extinguished with new senior notes at significantly lower coupon interest rates and extended the weighted average duration of these debt obligations. These charges incurred for the redemption had a negative impact of \$0.74 on our diluted loss per share; and

The recognition of pre-tax charges of \$14 million associated with divestitures, impairments and restructuring, including \$7 million of post-closing adjustments associated with the sale of our Wheelabrator business in December 2014 and a \$5 million impairment charge related to a landfill in our Western Canada Area. Combined, these charges had a negative impact of \$0.03 on our diluted loss 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 calculated the same as similarly-titled measures presented by other companies:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2016 | 2015 |
| Net cash provided by operating activities | \$ 706 | \$ 499 |
| Capital expenditures | (317) | (233) |
| Proceeds from divestitures of businesses and other assets (net of cash divested) | 13 | 19 |
| Free cash flow | \$ 402 | \$ 285 |

When comparing our cash flows from operating activities for the reported periods, the increase of \$207 million was primarily related to (i) higher earnings from our traditional Solid Waste business; (ii) cash proceeds of \$67 million from the termination of our foreign exchange cross currency swaps in the first quarter of 2016; and (iii) a decrease of \$46 million in incentive plan cash payments in the first quarter of 2016 when compared to the prior year period.

Although capital expenditures were \$84 million higher for the three months ended March 31, 2016 when compared to the prior year period, the Company continues to maintain a disciplined focus on capital management. The increase in our capital expenditures is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and the timing of replacement of aging assets. The increase when compared to prior year is also a result of efforts to spend capital more ratably throughout the year.

Acquisitions

Southern Waste Systems/Sun Recycling On January 8, 2016, Waste Management Inc. of Florida, a wholly-owned subsidiary of WM, acquired certain operations and business assets of Southern Waste Systems/Sun Recycling (SWS) in Southern Florida. The acquired business assets include residential, commercial, and

industrial solid waste collection, processing/recycling and transfer operations, equipment, vehicles, real estate and customer agreements. Total consideration was \$525 million and is subject to standard post-closing adjustments. The acquisition was funded primarily with borrowings under our long-term U.S. revolving credit facility (\$2.25 billion revolving credit facility). For the three months ended March 31, 2016, SWS recognized revenues of \$37 million and net income of \$1 million which are included in our Condensed Consolidated Statement of Operations.

Deffenbaugh Disposal, Inc. On March 26, 2015, we acquired Deffenbaugh Disposal, Inc. (Deffenbaugh), one of the largest privately owned collection and disposal firms in the Midwest, for total consideration, net of cash acquired, of \$400 million. Deffenbaugh s assets include five collection operations, seven transfer stations, two recycling facilities, one subtitle-D landfill, and one construction and demolition landfill.

Adoption of New Accounting Standards

Debt Issuance Costs In April 2015, and as subsequently amended, the Financial Accounting Standards Board (FASB) amended authoritative guidance associated with debt issuance costs which were previously presented as assets related to recognized debt liabilities. The amended guidance requires that debt issuance costs, other than those costs related to line of credit arrangements, be presented on the balance sheet as a direct deduction from the related debt liability, which is similar to the presentation for debt discounts and premiums. This guidance was effective for the Company on January 1, 2016. The Company s adoption of this guidance was applied retrospectively and resulted in a reclassification of \$52 million of such costs in our Condensed Consolidated Balance Sheet at December 31, 2015.

Consolidation In February 2015, the FASB amended authoritative guidance associated with consolidation. The amended guidance makes changes to existing consolidation requirements associated with the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities, including limited partnerships and variable interest entities. The guidance was effective for the Company on January 1, 2016. The Company s adoption of this guidance did not impact 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, as described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015. 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 Areas. We also provide additional services that are not managed through our Solid Waste business, including Strategic Business Solutions (WMSBS), Energy and Environmental Services, recycling brokerage services, landfill gas-to-energy services, and expanded service offerings and solutions. In addition, we offer portable self-storage and long distance moving services through a joint venture; fluorescent bulb and universal waste mail-back through our LampTracker® program; portable restroom servicing under the name Port-o-Let® and street and parking lot sweeping services. In addition, we hold 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 Ended March 31, | |
|--------------|------------------------------------|----------|
| | 2016 | 2015 |
| Solid Waste | \$ 3,282 | \$ 3,097 |
| Other | 500 | 478 |
| Intercompany | (606) | (535) |
| Total | \$ 3,176 | \$ 3,040 |

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

| | Three Months Ended March 31, | |
|------------------|------------------------------------|----------|
| | 2016 | 2015 |
| Commercial | \$ 846 | \$ 820 |
| Residential | 610 | 612 |
| Industrial | 561 | 509 |
| Other | 96 | 76 |
| Total collection | 2,113 | 2,017 |
| Landfill | 707 | 635 |
| Transfer | 346 | 308 |
| Recycling | 268 | 282 |
| Other | 348 | 333 |
| Intercompany | (606) | (535) |
| Total | \$ 3,176 | \$ 3,040 |

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

| | Period-to-Period Change for the Three Months Ended March 31, 2016 vs. 2015 | |
|------------------------------|---|---|
| | Amount | As a % of Total Company(a) |
| Average yield(b) | \$ 16 | 0.5% |
| Volume | 57 | 1.9 |
| Internal revenue growth | 73 | 2.4 |
| Acquisitions | 92 | 3.0 |
| Divestitures | (11) | (0.3) |
| Foreign currency translation | (18) | (0.6) |
| Total | \$ 136 | 4.5% |

- (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 (\$3,029 million).
- (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 Change for the Three Months Ended March 31, 2016 vs. 2015 | |
|-----------------------------------|---|--|
| | Amount | As a % of Related Business(i) |
| Average yield: | | |
| Collection and disposal | \$ 69 | 2.6% |
| Recycling commodities | (21) | (8.0) |
| Fuel surcharges and mandated fees | (32) | (24.6) |
| Total | \$ 16 | 0.5% |

- (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.

Our revenues increased \$136 million, or 4.5%, for the three months ended March 31, 2016 as compared with the prior year period. Our revenue increase was driven by (i) acquisitions, particularly the acquisitions of Deffenbaugh in March 2015 and SWS in January 2016; (ii) revenue growth from yield on our collection and disposal operations; and (iii) higher volumes. Partially offsetting these revenue increases were (i) lower

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

revenues from our fuel surcharge program due to declining fuel costs; (ii) lower recyclable commodity prices; (iii) foreign currency translation, which affects revenues from our Canadian operations; and (iv) divestitures.

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 and landfill 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 the types of services provided; (ii) changes in average price from new and lost business; and (iii) rollbacks to retain customers. Revenue growth from collection and disposal average yield was \$69 million, or 2.6%, for the three months ended March 31, 2016. We experienced growth in all three of our principal collection lines of business in the current period. The details are as follows (dollars in millions):

| | Period-to-Period Change for the Three Months Ended March 31, 2016 vs. 2015 | |
|-------------|---|---|
| | Amount | As a % of Related Business |
| Commercial | \$ 35 | 4.7% |
| Industrial | 18 | 3.9 |
| Residential | 10 | 1.7 |
| | \$ 63 | |

Other drivers affecting the current period average yield include:

Revenues from our environmental fee, which are included in average yield on collection and disposal, totaled \$102 million and \$86 million for the quarters ended March 31, 2016 and 2015, respectively, principally in our collection business, with the most significant impact in our commercial line of business.

In our residential line of business, we continue to focus on bidding on contracts that improve our yield performance and increase our overall returns.

Yield growth from our landfill and transfer station operations also improved for the current quarter.

Recycling commodities Decreases in the prices of the recycling commodities we sell resulted in revenue decline of \$21 million for the three months ended March 31, 2016 compared with the prior year period. Our year-over-year average commodity prices declined approximately 12% for the quarter as compared with the prior year period.

Fuel surcharges and mandated fees These revenues, which are predominantly generated by our fuel surcharge program, decreased \$32 million for the three months ended March 31, 2016 compared with the prior year period. These revenues fluctuate in response to changes in the national average prices for diesel fuel on which our surcharge is based. We experienced fuel price decline of approximately 30% for the three months ended March 31, 2016, as compared with prior year period, which caused a decline in our fuel surcharge revenues. 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 Our revenue increased \$57 million, or 1.9%, for the three months ended March 31, 2016 as compared with the prior year period as a result of higher volumes. The year-over-year comparison does not include volumes from acquisitions which are discussed below. Overall, we experienced higher volumes as a result of (i) our focus on disciplined volume growth, which has benefited from improving market conditions; (ii) one more workday in the current period; and (iii) mild winter weather in the current period as compared with the prior year period. The most

significant contributors to the current quarter volume growth were our municipal solid waste and construction and demolition landfills, our industrial collection business, and our transfer station operations.

Additional drivers affecting the comparability of volumes for the period presented are as follows:

Due to our focus on obtaining reasonable returns when renegotiating existing contracts and pursuing new contracts, we continue to see revenue declines in our residential business.

We experienced revenue increases in our recycling brokerage business.

We experienced revenue declines due to lower volumes in our ancillary services resulting from lower oil and gas prices, which negatively affected both our oil and gas producing properties and our oilfield services business. Partially offsetting these declines were revenue increases due to higher volumes in our remediation and construction service business.

Acquisitions and Divestitures Revenues increased \$92 million for the three months ended March 31, 2016, as compared with the prior year period, principally due to the acquisitions of Deffenbaugh and SWS. These revenues were partially offset by revenue decreases due to divestitures of \$11 million for the three months ended March 31, 2016, as compared with the prior year period.

Operating Expenses

Our operating expenses increased by \$47 million, or 2.4%, for the three months ended March 31, 2016 as compared with the three months ended March 31, 2015. Our operating expenses as a percentage of revenues decreased to 62.8% in the current period from 64.0% in the prior year period.

The following table summarizes the major components of our operating expenses for the three months ended March 31 (dollars in millions), with significant changes in our operating expenses discussed below:

| | 2016 | 2015 | Period-to-Period Change | |
|---------------------------------------|----------|----------|-------------------------|--------|
| Labor and related benefits | \$ 579 | \$ 564 | \$ 15 | 2.7% |
| Transfer and disposal costs | 231 | 217 | 14 | 6.5 |
| Maintenance and repairs | 256 | 241 | 15 | 6.2 |
| Subcontractor costs | 273 | 262 | 11 | 4.2 |
| Cost of goods sold | 181 | 185 | (4) | (2.2) |
| Fuel | 64 | 97 | (33) | (34.0) |
| Disposal and franchise fees and taxes | 163 | 149 | 14 | 9.4 |
| Landfill operating costs | 78 | 61 | 17 | 27.9 |
| Risk management | 56 | 53 | 3 | 5.7 |
| Other | 112 | 117 | (5) | (4.3) |
| | \$ 1,993 | \$ 1,946 | \$ 47 | 2.4% |

The most significant items contributing to the cost increases include:

The acquired operations of Deffenbaugh and SWS; and

Higher volumes in the current year period as discussed above in *Operating Revenues*. The most significant cost increases were in the labor and related benefits, transfer and disposal, subcontractor, and disposal and franchise fees and taxes cost categories.

Other significant changes in our operating expenses are discussed below:

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Fuel The decrease in fuel expense in the current period when compared to the prior period was driven by (i) lower fuel prices; (ii) lower costs resulting from the conversion of our fleet to natural gas vehicles; and (iii) increases in natural gas fuel excise credits that could not be recognized until the fourth quarter of the prior year.

Landfill operating costs The increase in landfill operating costs in the current period when compared to the prior period was driven primarily by higher leachate disposal costs.

Selling, General and Administrative

Our selling, general and administrative expenses increased by \$14 million, or 4.0%, when comparing the three months ended March 31, 2016 with the prior year period. Our selling, general and administrative expenses as a percentage of revenues remained at 11.4% for both periods.

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

| | 2016 | 2015 | Period-to-Period Change | |
|----------------------------|--------|--------|----------------------------|--------|
| Labor and related benefits | \$ 243 | \$ 223 | \$ 20 | 9.0% |
| Professional fees | 22 | 28 | (6) | (21.4) |
| Provision for bad debts | 11 | 12 | (1) | (8.3) |
| Other | 86 | 85 | 1 | 1.2 |
| | \$ 362 | \$ 348 | \$ 14 | 4.0% |

Our labor and related benefits costs increased as a result of (i) higher incentive compensation costs; (ii) increased headcount from our acquisitions of Deffenbaugh and SWS; and (iii) merit increases. Our professional fees decreased as a result of lower legal fees.

Depreciation and Amortization

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

| | 2016 | 2015 | Period-to-Period Change | |
|---|--------|--------|----------------------------|------|
| Depreciation of tangible property and equipment | \$ 190 | \$ 186 | \$ 4 | 2.2% |
| Amortization of landfill airspace | 99 | 89 | 10 | 11.2 |
| Amortization of intangible assets | 23 | 17 | 6 | 35.3 |
| | \$ 312 | \$ 292 | \$ 20 | 6.8% |

The increase in depreciation of tangible property and equipment and amortization of intangible assets during the first quarter of 2016 as compared to the prior year period is primarily due to the acquisitions of Deffenbaugh and SWS. The increase in amortization of landfill airspace during the first quarter of 2016 as compared to the prior year period is primarily due to increased volumes at our landfills.

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

In the first quarter of 2015, we recognized net charges of \$13 million, including \$7 million of post-closing adjustments associated with the sale of our Wheelabrator business in December 2014. In addition, we recognized a \$5 million impairment charge related to a landfill in our Western Canada Area.

Income from Operations

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

| | 2016 | 2015 | Period-to-Period Change | |
|---------------------|---------------|---------------|----------------------------|--------------|
| Solid Waste: | | | | |
| Tier 1 | \$ 334 | \$ 296 | 38 | 12.8% |
| Tier 2 | 145 | 139 | 6 | 4.3 |
| Tier 3 | 208 | 178 | 30 | 16.9 |
| Solid Waste | 687 | 613 | 74 | 12.1 |
| Wheelabrator | | (7) | 7 | * |
| Other | (36) | (23) | (13) | 56.5 |
| Corporate and Other | (143) | (143) | | |
| Total | \$ 508 | \$ 440 | \$ 68 | 15.5% |

* Percentage change does not provide a meaningful comparison.

All information presented has been updated to reflect our realigned segments which are discussed further in Note 8 to the Condensed Consolidated Financial Statements.

Solid Waste The most significant items affecting the results of operations of our Solid Waste business during the three months ended March 31, 2016 as compared with the prior year period are summarized below:

Our traditional Solid Waste business benefited from internal revenue growth, principally in our collection, landfill, and transfer businesses; and

Our recycling business was favorable compared to the prior year period principally due to continued cost reductions partially offset by lower market prices for recyclable commodities.

Other significant items affecting the comparability of the prior year period were:

Merit increases effective in the second quarter of 2015;

The prior year period impairment of a landfill in Tier 1;

Increased leachate disposal costs in Tier 2;

Accretive results from the acquisitions of Deffenbaugh and SWS in Tier 3; and

Decreased legal costs primarily in Tier 2 and Tier 3.

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Significant items affecting the comparison of the remaining components of our results of operations for the three months ended March 31, 2016 with the comparable prior year period are summarized below:

Wheelabrator In the first quarter of 2015, we recognized post-closing adjustments associated with the sale of our Wheelabrator business in December 2014.

Other Lower year-over-year earnings in our WMSBS and energy related businesses.

Interest Expense, net

Our interest expense, net was \$95 million and \$104 million during the three months ended March 31, 2016 and 2015, respectively. The decrease of \$9 million is primarily attributable to the refinancing of a significant portion of our high-coupon senior notes during the first quarter of 2015 as discussed below in *Loss on Early Extinguishment of Debt*.

Loss on Early Extinguishment of Debt

In the first quarter of 2015, we recognized a pre-tax loss of \$550 million associated with the early extinguishment of almost \$2 billion of our high-coupon senior notes through make-whole redemption and cash tender offers. We replaced substantially all of the debt extinguished with new senior notes at significantly lower coupon interest rates and extended the weighted average duration of these debt obligations.

Equity in Net Losses of Unconsolidated Entities

We recognized Equity in net losses of unconsolidated entities of \$7 million and \$8 million for the three months ended March 31, 2016 and 2015, respectively. These losses are primarily related to our noncontrolling interests in entities established to invest in and manage low-income housing properties and a refined coal facility. The tax impacts realized as a result of these investments are discussed below in *Provision for (Benefit from) Income Taxes*. Refer to Notes 5 and 14 to the Condensed Consolidated Financial Statements for more information related to these investments.

Other, net

We recognized other, net expense of \$9 million for the three months ended March 31, 2016 primarily related to \$8 million of expense associated with the termination of our foreign exchange cross currency swaps, which is discussed further in Note 4 to the Condensed Consolidated Financial Statements.

Provision for (Benefit from) Income Taxes

We recorded a provision for income taxes of \$140 million during the first quarter of 2016, representing an effective income tax rate of 35.4%, compared with a benefit from income taxes of \$91 million during the first quarter of 2015, representing an effective income tax rate of 41.0%.

Our provision for income taxes for the three months ended March 31, 2016 was unfavorably impacted by state and local income taxes offset by the favorable impact of federal tax credits. Our benefit from income taxes for the three months ended March 31, 2015 was primarily due to the impact of loss on early extinguishment of debt discussed above in *Loss on Early Extinguishment of Debt*.

Our investments in low-income housing properties and the refined coal facility reduced our provision for income taxes by \$11 million for each of the three months ended March 31, 2016 and 2015. Refer to Note 5 to the Condensed Consolidated Financial Statements for more information related to these investments.

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 (dollars in millions):

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| Cash and cash equivalents | \$ 104 | \$ 39 |
| Restricted trust and escrow accounts: | | |
| Final capping, closure, post-closure and environmental remediation funds | \$ 94 | \$ 94 |
| Other | 11 | 11 |
| Total restricted trust and escrow accounts | \$ 105 | \$ 105 |
| Debt: | | |
| Current portion | \$ 524 | \$ 253 |
| Long-term portion | 9,072 | 8,676 |
| Total debt | \$ 9,596 | \$ 8,929 |

As of March 31, 2016, we had \$1,140 million of debt with stated maturities within 12 months and \$381 million of tax-exempt bonds with term interest rate periods scheduled to expire within the next 12 months. Under U.S. Generally Accepted Accounting Principles (GAAP), these debt balances must be reported as Current portion of long-term debt unless the Company intends and has the ability to refinance the debt on a long-term basis. We have classified \$997 million of these debt balances as long-term as of March 31, 2016 and the remaining \$524 million as current obligations. The classification of these debt balances as long-term is based on the following:

The Company intends to refinance the \$500 million of 2.6% senior notes that mature in September 2016 on a long-term basis either by issuing new debt or by utilizing the forecasted available capacity of our \$2.25 billion revolving credit facility.

The Company generally uses available cash to repay borrowings outstanding under the \$2.25 billion revolving credit facility and any remaining balances are maintained by extending the maturities of the borrowings. Our current projections indicate that the Company will maintain \$116 million of the \$458 million of outstanding borrowings for the next 12 months.

The Company expects to successfully remarket the \$381 million of tax-exempt bonds with term interest rate periods expiring within the next 12 months. In the event of a failed remarketing, we have the intent and ability to use availability under our \$2.25 billion revolving credit facility to fund the debt obligations until they can be remarketed successfully.

Summary of Cash Flow Activity

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

| | 2016 | 2015 |
|---|----------|----------|
| Net cash provided by operating activities | \$ 706 | \$ 499 |
| Net cash used in investing activities | \$ (847) | \$ (628) |
| Net cash provided by (used in) financing activities | \$ 206 | \$ (898) |

Net Cash Provided by Operating Activities The most significant items affecting the comparison of our operating cash flows for the three months ended March 31, 2016 and 2015 are summarized below:

Increase in earnings Our income from operations, excluding depreciation and amortization, increased by \$88 million on a year-over-year basis, principally driven by earnings from our traditional Solid Waste business.

Foreign currency derivatives During the first quarter of 2016, we terminated our foreign exchange cross currency swaps associated with the anticipated cash flows of intercompany loans between WM Holdings and its wholly-owned Canadian subsidiaries, as discussed further in Note 4 to the Condensed Consolidated Financial Statements. In connection with the termination, we received cash proceeds of \$67 million, which has been classified as a change in Other current assets and Other assets within Net cash provided by operating activities in the Condensed Consolidated Statement of Cash Flows.

Decrease in incentive plan cash payments Payments for our annual incentive plans are typically made in the first quarter of the year based on prior year performance. Our cash flow from operations was favorably impacted by \$46 million on a year-over-year basis, as the annual incentive plan cash payments made in the first quarter of 2016 were significantly lower than the cash payments made in the first quarter of 2015.

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Changes in assets and liabilities, net of effects from business acquisitions and divestitures On a year-over-year basis the net changes in our working capital accounts, exclusive of the items noted above, were essentially flat. Although our working capital changes may vary from year to year, they are typically driven by changes in accounts receivable and accounts payable, which result from changes in revenue and costs and the timing of payments.

Net Cash Used in Investing Activities The most significant items included in our investing cash flows for the three months ended March 31, 2016 and 2015 are summarized below:

Acquisitions Our spending on acquisitions was \$537 million in the first quarter of 2016 compared with \$445 million in the first quarter of 2015. In 2016, our acquisitions consisted primarily of certain operations and business assets of SWS. In 2015, our acquisitions consisted primarily of the collection and disposal operations of Deffenbaugh. These acquisitions are discussed further in Note 9 to the Condensed Consolidated Financial Statements.

Capital expenditures We used \$317 million and \$233 million during the first quarters of 2016 and 2015, respectively, for capital expenditures. The increase in our capital expenditures is generally the result of additional spending on new business opportunities and acquisitions, growth in our existing business and the timing of replacement of aging assets. The increase when compared to prior year is also a result of efforts to spend capital more ratably throughout the year.

Net Cash Provided by (Used in) Financing Activities During the first quarter of 2016, net cash provided by financing activities was \$206 million compared with net cash used in financing activities of \$898 million during the comparable prior year period. The most significant items affecting the comparison of our financing cash flows for the three months ended March 31, 2016 and 2015 are summarized below:

Debt borrowings (repayments) The following summarizes our cash borrowings and debt repayments for the three months ended March 31 (in millions):

| | 2016 | 2015 |
|--|----------|------------|
| <i>Borrowings:</i> | | |
| \$2.25 billion revolving credit facility | \$ 914 | \$ |
| Canadian term loan | 347 | |
| Senior notes | | 1,781 |
| Capital leases and other debt | 40 | 36 |
| | \$ 1,301 | \$ 1,817 |
| <i>Repayments:</i> | | |
| \$2.25 billion revolving credit facility | \$ (476) | \$ |
| Canadian term loan | (88) | (8) |
| Senior notes | (10) | (1,964) |
| Tax-exempt bonds | (30) | (15) |
| Capital leases and other debt | (43) | (42) |
| | \$ (647) | \$ (2,029) |
| <i>Net borrowings (repayments)</i> | \$ 654 | \$ (212) |

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

Premiums paid on early extinguishment of debt Premiums paid on early extinguishment of debt of \$554 million during the first quarter of 2015 relate to (i) charges for make-whole premiums on certain senior notes that the Company decided to redeem in advance of their scheduled maturities and (ii) charges related to the tender offer for certain senior notes of WM and WM Holdings. For further discussion see *Loss on Early Extinguishment of Debt* above.

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

Share repurchases We paid \$250 million for share repurchases in the first quarter of 2016. No shares were repurchased in the first quarter of 2015. After completion of these share repurchases, the Company has authorization for \$900 million of future share repurchases. See Note 12 to the Condensed Consolidated Financial Statements for additional information related to share repurchases.

Dividends We paid \$183 million in cash dividends in the first quarter of 2016 compared with \$176 million in the first quarter of 2015. The increase in dividend payments is due to our quarterly per share

dividend declared increasing from \$0.385 in 2015 to \$0.41 in 2016 and was offset, in part, by a reduction in common stock outstanding as a result of our share repurchase program.

Liquidity Impacts of Income Tax Items

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. As of March 31, 2016, we anticipate that approximately \$36 million of liabilities for unrecognized tax benefits, including accrued interest, and \$4 million of related tax assets may be reversed within the next 12 months. The anticipated reversals primarily relate to the deductibility and exclusion from gross income of certain federal tax items and other miscellaneous state tax items, each of which is individually insignificant. The recognition of the unrecognized tax benefits is expected to result from the filing of our tax returns, audit settlements or the expiration of the applicable statute of limitations period.

Off-Balance Sheet Arrangements

We have financial interests in unconsolidated variable interest entities as discussed in Note 14 to the Condensed Consolidated Financial Statements. Additionally, we are party to guarantee arrangements with unconsolidated entities as discussed in the *Guarantees* section of Note 7 to the Condensed Consolidated Financial Statements. These arrangements have not materially affected our financial position, results of operations or liquidity during the three months ended March 31, 2016, nor are they expected to have a material impact on our future financial position, results of operations or liquidity.

New Accounting Standards Pending Adoption

Stock Compensation In March 2016, the FASB issued amended authoritative guidance associated with stock-based employee compensation as part of its simplification initiative to reduce the cost and complexity of compliance with GAAP while maintaining or improving the usefulness of the information provided. The amended guidance changes both the accounting and financial reporting for certain income tax impacts of stock-based compensation. All excess tax benefits and tax deficiencies will be required to be recognized as income tax benefit or expense rather than as a component of equity. The guidance also provides for changes in the calculation of forfeitures related to the expense of stock-based employee compensation. The amended authoritative guidance is effective for the Company on January 1, 2017, with early adoption permitted. We are assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements.

Leases In February 2016, the FASB amended authoritative guidance associated with lease accounting. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. The disclosure of key information about leasing arrangements will also be required. The amended authoritative guidance is effective for the Company on January 1, 2019, with early adoption permitted. We are in the process of assessing the provisions of the amended guidance and evaluating the timing and impact on our consolidated financial statements and disclosures.

Financial Instruments In January 2016, the FASB amended authoritative guidance associated with the recognition and measurement of financial assets and liabilities. The amended guidance will require certain equity investments that are not consolidated to be measured at fair value with changes in fair value recognized in net income rather than as a component of accumulated other comprehensive income. The amended guidance is effective for the Company on January 1, 2018, with early adoption permitted. The adoption of this amended guidance will not have a material impact on our consolidated financial statements.

Revenue Recognition In May 2014, the 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 on January 1, 2018. 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 adoption. 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.

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 can generate earnings at comparatively lower margins.

Inflation

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

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

Information about market risks as of March 31, 2016, does not differ materially from that discussed under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. *Controls and Procedures.*

Effectiveness of Controls and Procedures

Our management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to management (including the principal executive and financial officers) as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of March 31, 2016 (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 March 31, 2016. We determined that there were no changes in our internal control over financial reporting during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

Item 1. Legal Proceedings.

Information regarding our legal proceedings can be found under the *Environmental Matters* and *Litigation* sections of Note 7 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, 2015 in response to Item 1A to Part I of Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes common stock repurchases made during the first quarter of 2016 (shares in millions):

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|--|--|
| January 1 31 | 2.0 (b) | \$ 53.37 (b) | 2.0 | \$ 1 billion (a)(b) |
| February 1 29 | 0.9 (b) | \$ 52.65 (b) | 0.9 | \$ 1 billion (b) |
| March 1 31 | 1.2 (c) | \$ 56.95 (c) | 1.2 | \$ 900 million (c) |
| Total | 4.1 | \$ 54.30 | 4.1 | |

- (a) We announced in December 2015 that the Board of Directors refreshed its prior authorization of up to \$1 billion in future share repurchases.
- (b) The Company entered into an accelerated share repurchase (ASR) agreement in December 2015 to repurchase \$150 million of our common stock in early 2016, pursuant to our prior Board of Directors authorization announced in February 2015. In January 2016, we delivered \$150 million in cash and received 2.0 million shares based on a stock price of \$53.37. The ASR agreement completed in February 2016, at which time we received 0.9 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$53.15.
- (c) In March 2016, the Company entered into an ASR agreement to repurchase an additional \$100 million of our common stock pursuant to our Board of Directors authorization announced in December 2015. At the beginning of the ASR repurchase period, we delivered \$100 million in cash and received 1.2 million shares based on a stock price of \$56.95. The ASR agreement completed in April 2016, at which time we received 0.5 million additional shares based on a final weighted average per share purchase price during the repurchase period of \$58.33.

Item 4. Mine Safety Disclosures.

Edgar Filing: WASTE MANAGEMENT INC - Form 10-Q

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.

| Exhibit | |
|----------------|--|
| No. | Description |
| 10.1 | Form of 2016 Senior Leadership Team Award Agreement [incorporated by reference to Exhibit 10.1 to Form 8-K filed March 2, 2016]. |
| 10.2 | C\$509,500,000 Credit Facilities Amended and Restated 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, JPMorgan Chase Bank, N.A., Bank of America, N.A. and PNC Bank Canada Branch, as co-syndication agents, The Bank of Nova Scotia, JPMorgan Chase Bank, N.A., 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 10.1 to Form 8-K filed March 29, 2016]. |
| 31.1 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of David P. Steiner, President and Chief Executive Officer. |
| 31.2 | Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, of James C. Fish, Jr., Executive Vice President and Chief Financial Officer. |
| 32.1 | Certification Pursuant to 18 U.S.C. §1350 of David P. Steiner, President and Chief Executive Officer. |
| 32.2 | Certification Pursuant to 18 U.S.C. §1350 of James C. Fish, Jr., Executive Vice President and Chief Financial Officer. |
| 95 | Mine Safety Disclosures. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

SIGNATURES

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

WASTE MANAGEMENT, INC.

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

WASTE MANAGEMENT, INC.

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

Date: April 28, 2016