

REPUBLIC SERVICES INC

Form 10-Q

November 08, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

**For the quarterly period ended September 30, 2006**  
**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 1-14267**

**REPUBLIC SERVICES, INC.**

*(Exact Name of Registrant as Specified in its Charter)*

**DELAWARE**

*(State of Incorporation)*

**65-0716904**

*(IRS Employer Identification No.)*

**110 S.E. 6TH STREET, 28TH FLOOR**

**FT. LAUDERDALE, FLORIDA**

*(Address of Principal Executive Offices)*

**33301**

*(Zip Code)*

Registrant's Telephone Number, Including Area Code: **(954) 769-2400**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

On October 31, 2006, the registrant had outstanding 130,482,957 shares of Common Stock, par value \$.01 per share.

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**REPUBLIC SERVICES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except share data)

	<b>September 30, 2006 (Unaudited)</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 49.3	\$ 131.8
Accounts receivable, less allowance for doubtful accounts of \$19.4 and \$17.3, respectively	311.5	280.0
Prepaid expenses and other current assets	56.0	61.6
Deferred tax assets	10.9	8.9
Total Current Assets	427.7	482.3
RESTRICTED CASH AND MARKETABLE SECURITIES	208.3	255.3
PROPERTY AND EQUIPMENT, NET	2,147.3	2,115.3
GOODWILL, NET	1,562.2	1,563.8
INTANGIBLE ASSETS, NET	22.9	27.0
OTHER ASSETS	120.5	106.8
	\$ 4,488.9	\$ 4,550.5
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 125.8	\$ 176.1
Accrued liabilities	163.1	163.7
Deferred revenue	107.7	99.3
Notes payable and current maturities of long-term debt	2.8	3.0
Federal income taxes payable	24.5	113.4
Other current liabilities	122.6	111.5
Total Current Liabilities	546.5	667.0
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,664.8	1,472.1
ACCRUED LANDFILL AND ENVIRONMENTAL COSTS	277.8	259.7
DEFERRED INCOME TAXES	400.9	390.0
OTHER LIABILITIES	164.6	155.9
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		

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Preferred stock, par value \$.01 per share; 50,000,000 shares authorized; none issued		
Common stock, par value \$.01 per share; 750,000,000 shares authorized; 193,191,857 and 190,119,521 issued, including shares held in treasury, respectively	1.9	1.9
Additional paid-in capital	1,601.1	1,509.1
Deferred compensation		(1.1)
Retained earnings	1,556.5	1,402.8
Treasury stock, at cost (61,924,984 and 51,516,900 shares, respectively)	(1,726.5)	(1,308.8)
Accumulated other comprehensive income, net of tax	1.3	1.9
 Total Stockholders' Equity	 1,434.3	 1,605.8
	\$ 4,488.9	\$ 4,550.5

The accompanying notes are an integral part of these statements.

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**REPUBLIC SERVICES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
REVENUE	\$787.1	\$730.0	\$2,304.4	\$2,125.8
EXPENSES:				
Cost of operations	493.2	462.9	1,442.1	1,332.9
Depreciation, amortization and depletion	76.9	72.2	224.4	204.0
Accretion	4.0	3.7	11.6	10.7
Selling, general and administrative	79.6	71.8	236.5	216.4
OPERATING INCOME	133.4	119.4	389.8	361.8
INTEREST EXPENSE	(25.1)	(20.0)	(71.5)	(60.8)
INTEREST INCOME	4.8	3.4	11.9	8.1
OTHER INCOME (EXPENSE), NET	3.3	.1	4.6	3.3
INCOME BEFORE INCOME TAXES	116.4	102.9	334.8	312.4
PROVISION FOR INCOME TAXES	39.1	39.1	122.1	118.7
NET INCOME	\$ 77.3	\$ 63.8	\$ 212.7	\$ 193.7
BASIC EARNINGS PER SHARE	\$ .59	\$ .46	\$ 1.58	\$ 1.35
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	131.7	140.0	134.7	143.6
DILUTED EARNINGS PER SHARE	\$ .58	\$ .45	\$ 1.56	\$ 1.32
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	133.1	142.6	136.5	146.3
CASH DIVIDENDS PER COMMON SHARE	\$ .16	\$ .14	\$ .44	\$ .38

The accompanying notes are an integral part of these statements.

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**REPUBLIC SERVICES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
(in millions)

	<b>Common Stock</b>	<b>Additional</b>		<b>Accumulated</b>	<b>Other</b>	<b>Comprehensive</b>
	<b>Shares,</b>	<b>Par</b>	<b>Paid-In</b>	<b>Retained</b>	<b>Treasury</b>	<b>Comprehensive</b>
	<b>Net</b>	<b>Value</b>	<b>Capital</b>	<b>Earnings</b>	<b>Stock</b>	<b>Income</b>
						<b>Income</b>
BALANCE AT DECEMBER 31, 2005	138.6	\$1.9	\$1,508.0	\$1,402.8	\$(1,308.8)	\$ 1.9
Net income				212.7		\$ 212.7
Cash dividends declared				(59.0)		
Issuances of common stock	3.1		85.1			
Compensation expense for restricted stock and deferred stock units			4.4			
Compensation expense for stock options			3.6			
Purchases of common stock for treasury	(10.4)				(417.7)	
Changes in value of derivative instruments, net of tax						(.6)
						(.6)
Total comprehensive income						\$ 212.1
BALANCE AT SEPTEMBER 30, 2006	131.3	\$1.9	\$1,601.1	\$1,556.5	\$(1,726.5)	\$ 1.3

The accompanying notes are an integral part of this statement.



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**REPUBLIC SERVICES, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 212.7	\$ 193.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	134.7	123.4
Landfill depletion and amortization	84.4	75.2
Amortization of intangible and other assets	5.3	5.4
Accretion	11.6	10.7
Stock option compensation expense	3.6	
Restricted stock and deferred stock unit compensation expense	4.4	2.5
Deferred tax provision	13.6	32.4
Provision for doubtful accounts	7.0	5.5
Income tax benefit from stock option exercises	9.7	16.2
(Gains) losses, net on sales of businesses	(.9)	(3.4)
Other non-cash items	(6.0)	.3
Changes in assets and liabilities, net of effects from business acquisitions and dispositions:		
Accounts receivable	(38.4)	(32.0)
Prepaid expenses and other assets	(9.0)	(14.4)
Accounts payable and accrued liabilities	(54.7)	9.1
Federal income taxes payable	(88.9)	58.5
Other liabilities	11.7	10.6
	300.8	493.7
<b>CASH USED IN INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(242.1)	(250.0)
Proceeds from sales of property and equipment	17.5	8.5
Cash used in business acquisitions, net of cash acquired	(2.2)	(7.1)
Cash proceeds from business dispositions, net of cash disposed	3.8	29.6
Change in amounts due and contingent payments to former owners	(.4)	(2.8)
Change in restricted cash	47.3	71.2
Change in restricted marketable securities	(.3)	38.7
	(176.4)	(111.9)
<b>CASH USED IN FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and long-term debt	327.0	40.7
Payment of premium to exchange notes payable		(27.6)
Payments of notes payable and long-term debt	(134.2)	(43.7)
Issuances of common stock	63.9	44.4

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Excess income tax benefit from stock option exercises	11.5	
Purchases of common stock for treasury	(417.7)	(450.7)
Cash dividends	(57.4)	(52.6)
	(206.9)	(489.5)
DECREASE IN CASH AND CASH EQUIVALENTS	(82.5)	(107.7)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	131.8	141.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 49.3	\$ 33.8

The accompanying notes are an integral part of these statements.

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**REPUBLIC SERVICES, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(All tables in millions, except per share data)**

**1. BASIS OF PRESENTATION**

Republic Services, Inc. (together with its subsidiaries, the Company) is a leading provider of non-hazardous solid waste collection and disposal services in the United States.

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of the Company and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. Certain information related to the Company's organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, these Unaudited Condensed Consolidated Financial Statements reflect all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Company's audited Consolidated Financial Statements and notes thereto appearing in the Company's Form 10-K for the year ended December 31, 2005.

The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts based on estimates and assumptions made by management. Actual results could differ from these amounts. Significant items subject to such estimates and assumptions include the depletion and amortization of landfill development costs, liabilities for final capping, closure and post-closure costs, valuation allowances for accounts receivable, liabilities for potential litigation, claims and assessments, and liabilities for environmental remediation, deferred taxes and self-insurance.

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), effective January 1, 2006 using the modified prospective transition method. As a result of adopting SFAS 123(R), the Company recorded \$1.2 million and \$5.1 million of incremental equity-based compensation expense during the three and nine months ended September 30, 2006, respectively. In accordance with the modified prospective transition method, the Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of adopting SFAS 123(R). (For further information, see Note 8, Employee Benefit Plans.)

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (the Interpretation). The Interpretation applies to all tax positions within the scope of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and applies a more likely than not threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. The Interpretation is mandatory for years beginning after December 15, 2006; accordingly, the Company will adopt the Interpretation effective January 1, 2007. The cumulative effect of adopting the Interpretation will be recorded in retained earnings and other accounts as applicable. The Company is currently in the process of evaluating the effects of this new accounting standard. The impact of the Interpretation on the Company's financial statements is not currently known or reasonably estimable.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 will be effective for the Company beginning January 1, 2008. The Company is currently in the process of assessing the provisions of SFAS 157 and determining how this framework for measuring fair value will affect its current accounting policies and procedures and its financial statements. The Company has not determined whether the adoption of SFAS 157 will have a material impact on its Consolidated Financial Statements.

There are no other new accounting pronouncements that are significant to the Company.



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Certain amounts in the 2005 Unaudited Condensed Consolidated Financial Statements have been reclassified to conform to the 2006 presentation.

**2. LANDFILL AND ENVIRONMENTAL COSTS****Accrued Landfill and Environmental Costs**

A summary of landfill and environmental liabilities is as follows:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Landfill final capping, closure and post-closure liabilities	\$ 263.0	\$ 239.5
Remediation	47.8	50.3
Legal costs	1.7	2.0
	312.5	291.8
Less: Current portion (included in other current liabilities)	(34.7)	(32.1)
Long-term portion	\$ 277.8	\$ 259.7

**Life Cycle Accounting**

The Company uses life cycle accounting and the units-of-consumption method to recognize certain landfill costs over the life of the site. In life cycle accounting, all costs to acquire and construct a site are capitalized, and charged to expense based upon the consumption of cubic yards of available airspace. Costs and airspace estimates are developed at least annually by engineers. These estimates are used by the Company's operating and accounting personnel to adjust the Company's rates used to expense capitalized costs. Changes in these estimates primarily relate to changes in available airspace, inflation and applicable regulations. Changes in available airspace include changes due to the addition of airspace lying in probable expansion areas.

**Total Available Disposal Capacity**

As of September 30, 2006, the Company owned or operated 59 solid waste landfills with total available disposal capacity of approximately 1.7 billion in-place cubic yards. Total available disposal capacity represents the sum of estimated permitted airspace plus an estimate of expansion airspace that the Company believes has a probable likelihood of ultimately being permitted.

**Probable Expansion Airspace**

Before airspace included in an expansion area is determined to be probable expansion airspace and, therefore, is included in the Company's calculation of total available disposal capacity, the following criteria must be met:

1. The land associated with the expansion airspace is either owned by the Company or is controlled by the Company pursuant to an option agreement;
2. The Company is committed to supporting the expansion project financially and with appropriate resources;
3. There are no identified fatal flaws or impediments associated with the project, including political impediments;
4. Progress is being made on the project;
5. The expansion is attainable within a reasonable time frame; and
6. The Company believes it is likely the expansion permit will be received.

Upon meeting the Company's expansion criteria, the rates used at each applicable landfill to expense costs to acquire, construct, cap, close and maintain a site during the post-closure period are adjusted to include probable expansion airspace and all additional costs to be capitalized or accrued associated with the expansion airspace.

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The Company has identified three steps that landfills generally follow to obtain expansion permits. These steps are as follows:

1. Obtaining approval from local authorities;
2. Submitting a permit application to state authorities; and
3. Obtaining permit approval from state authorities.

Once a landfill meets the Company's expansion criteria, management continuously monitors each site's progress in obtaining the expansion permit. If at any point it is determined that an expansion area no longer meets the required criteria, the probable expansion airspace is removed from the landfill's total available capacity, and the rates used at the landfill to expense costs to acquire, construct, cap, close and maintain a site during the post-closure period are adjusted accordingly.

### **Capitalized Landfill Costs**

Capitalized landfill costs include expenditures for land, permitting costs, cell construction costs and environmental structures. Capitalized permitting and cell construction costs are limited to direct costs relating to these activities, including legal, engineering and construction costs associated with excavation, natural and synthetic liners, construction of leachate collection systems, installation of methane gas collection and monitoring systems, installation of groundwater monitoring wells and other costs associated with the development of the site. Interest is capitalized on landfill construction projects while the assets are undergoing activities to ready them for their intended use. Capitalized landfill costs also include final capping, closure and post-closure assets accrued in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), as discussed below.

Costs related to acquiring land, excluding the estimated residual value of unpermitted, non-buffer land, and costs related to permitting and cell construction are depleted as airspace is consumed using the units-of-consumption method.

Capitalized landfill costs may also include an allocation of purchase price paid for landfills. For landfills purchased as part of a group of several assets, the purchase price assigned to the landfill is determined based upon the discounted future expected cash flows of the landfill relative to the other assets within the acquired group. If the landfill meets the Company's expansion criteria, the purchase price is further allocated between permitted airspace and expansion airspace based upon the ratio of permitted versus probable expansion airspace to total available airspace. Landfill purchase price is amortized using the units-of-consumption method over the total available airspace including probable expansion airspace where appropriate.

### **Final Capping, Closure and Post-Closure Costs**

The Company accounts for final capping, closure and post-closure in accordance with SFAS 143.

The Company has future obligations for final capping, closure and post-closure costs with respect to the landfills it owns or operates as set forth in applicable landfill permits. Final capping, closure and post-closure costs include estimated costs to be incurred for final capping and closure of landfills and estimated costs for providing required post-closure monitoring and maintenance of landfills. The permit requirements are based on the Subtitle C and Subtitle D regulations of the Resource Conservation and Recovery Act (RCRA), as implemented and applied on a state-by-state basis. Obligations associated with monitoring and controlling methane gas migration and emissions are set forth in applicable landfill permits and these requirements are based upon the provisions of the Clean Air Act of 1970, as amended. Final capping typically includes installing flexible membrane and geosynthetic clay liners, drainage and compact soil layers, and topsoil, and is constructed over an area of the landfill where total airspace capacity has been consumed and waste disposal operations have ceased. These final capping activities occur throughout the operating life of a landfill. Other closure activities and post-closure activities occur after the entire landfill ceases to accept waste and closes. These activities involve methane gas control, leachate management and groundwater monitoring, surface water monitoring and control, and other operational and maintenance activities that occur after the site ceases to accept waste. The post-closure period generally runs for up to 30 years after final site closure for municipal solid waste landfills and a shorter period for construction and demolition landfills and inert

landfills.



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Estimates of future expenditures for final capping, closure and post-closure are developed by engineers. These estimates are reviewed by management at least annually and are used by the Company's operating and accounting personnel to adjust the rates used to capitalize and amortize these costs. These estimates involve projections of costs that will be incurred during the remaining life of the landfill for final capping activities, after the landfill ceases operations and during the legally required post-closure monitoring period. Additionally, the Company currently retains post-closure responsibility for several closed landfills.

Under SFAS 143, a liability for an asset retirement obligation must be recognized in the period in which it is incurred and should be initially measured at fair value. Absent quoted market prices, the estimate of fair value should be based on the best available information, including the results of present value techniques in accordance with Statement of Financial Accounting Concepts No. 7, Using Cash Flow and Present Value in Accounting Measurements (SFAC 7). The offset to the liability must be capitalized as part of the carrying amount of the related long-lived asset. Changes in the liability due to the passage of time are recognized as operating items in the income statement and are referred to as accretion expense. Changes in the liability due to revisions of estimated future cash flows are recognized by increasing or decreasing the liability with the offset adjusting the carrying amount of the related long-lived asset.

In applying the provisions of SFAS 143, the Company has concluded that a landfill's asset retirement obligation includes estimates of all costs related to final capping, closure and post-closure. Costs associated with a landfill's daily maintenance activities during the operating life of the landfill, such as leachate disposal, groundwater and gas monitoring, and other pollution control activities, are charged to expense as incurred. In addition, costs historically accounted for as capital expenditures during the operating life of a landfill, such as cell development costs, are capitalized when incurred, and charged to expense using life cycle accounting and the units-of-consumption method based on the consumption of cubic yards of available airspace.

The Company defines final capping as activities required to permanently cover a portion of a landfill that has been completely filled with waste. Final capping occurs in phases throughout the life of a landfill as specific areas are filled to capacity and the final elevation for that specific area is reached in accordance with the provisions of the operating permit. The Company considers final capping events to be discrete activities that are recognized as asset retirement obligations separately from other closure and post-closure obligations. These capping events occur generally during the operating life of a landfill and can be associated with waste actually placed under an area to be capped. As a result, the Company uses a separate rate per ton for recognizing the principal amount of the liability and related asset associated with each capping event. The Company amortizes the asset recorded pursuant to this approach as waste volume equivalent to the capacity covered by the capping event is placed into the landfill based upon the consumption of cubic yards of available airspace covered by the capping event.

The Company recognizes asset retirement obligations and the related amortization expense for closure and post-closure (excluding obligations for final capping) using the units-of-consumption method over the total remaining capacity of the landfill. The total remaining capacity includes probable expansion airspace.

In general, the Company engages third parties to perform most of its final capping, closure and post-closure activities. Accordingly, the fair market value of these obligations is based upon quoted and actual prices paid for similar work. The Company does intend to perform some of its final capping, closure and post-closure activities using internal resources. Where internal resources are expected to be used to fulfill an asset retirement obligation, the Company has added a profit margin onto the estimated cost of such services to better reflect their fair market value as required by SFAS 143. These services primarily relate to managing construction activities during final capping and maintenance activities during closure and post-closure. If the Company does perform these services internally, the added profit margin would be recognized as a component of operating income in the period the obligation is settled.

SFAC 7 states that an estimate of fair value should include the price that marketplace participants are able to receive for bearing the uncertainties in cash flows. However, when utilizing discounted cash flow techniques, reliable estimates of market premiums may not be obtainable. In this situation, SFAC 7 indicates that it is not necessary to consider a market risk premium in the determination of expected cash flows. While the cost of asset retirement obligations associated with final capping, closure and post-closure can be quantified and estimated, there is not an active market that can be utilized to determine the fair value of these activities. In the case of the waste industry, no market exists for selling the responsibility for final capping, closure and post-closure independent of selling the

landfill in its entirety. Accordingly, the Company believes that it is not possible to develop a methodology to reliably estimate a market risk premium and has excluded a market risk premium from its determination of expected cash flow for landfill asset retirement obligations in accordance with SFAC 7.

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The Company's estimates of costs to discharge asset retirement obligations for landfills are developed in today's dollars. These costs are inflated each year to reflect a normal escalation of prices up to the year they are expected to be paid. The Company uses a 2.5% inflation rate, which is based on the ten-year historical moving average increase in the U.S. Consumer Price Index and is the rate used by most waste industry participants.

These estimated costs are then discounted to their present value using a credit-adjusted, risk-free rate. The Company's credit-adjusted, risk-free rate for liability recognition was determined to be 6.1% for the nine months ended September 30, 2006 and 2005, based upon the estimated all-in yield the Company believes it would need to offer to sell thirty-year debt in the public market. Changes in asset retirement obligations due to the passage of time are measured by recognizing accretion expense in a manner that results in a constant effective interest rate being applied to the average carrying amount of the liability. The effective interest rate used to calculate accretion expense is the Company's credit-adjusted, risk-free rate in effect at the time the liabilities were recorded.

In accordance with SFAS 143, changes due to revision of the estimates of the amount or timing of the original undiscounted cash flows used to record a liability are recognized by increasing or decreasing the carrying amount of the asset retirement obligation liability and the carrying amount of the related asset. Upward revisions in the amount of undiscounted estimated cash flows used to record a liability must be discounted using the credit-adjusted, risk-free rate in effect at the time of the change. Downward revisions in the amount of undiscounted estimated cash flows used to record a liability must be discounted using the credit-adjusted, risk-free rate that was in effect when the original liability was recognized.

The Company reviews its calculations with respect to landfill asset retirement obligations at least annually. If there is a significant change in the facts and circumstances related to a landfill during the year, the Company will review its calculations for the landfill as soon as practical after the significant change has occurred. During the three months ended December 31, 2005, the Company completed its annual review of landfill asset retirement obligations for 2005 and recorded an increase of \$2.1 million in amortization expense primarily related to increases in costs for items such as excavation, construction and synthetic liner. The Company intends to conduct future annual reviews of its landfill asset retirement obligations during the fourth quarter of each year.

The following table summarizes the activity in the Company's asset retirement obligation liabilities for the nine months ended September 30, 2006 and 2005:

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Asset retirement obligation liability, beginning of year	\$239.5	\$216.8
Non-cash asset additions	17.3	15.4
Revisions in estimates of future cash flows	.8	(5.7)
Acquisitions during the period		3.3
Amounts settled during the period	(6.2)	(4.8)
Accretion expense	11.6	10.7
Asset retirement obligation liability, end of period	263.0	235.7
Less: Current portion (included in other current liabilities)	(21.5)	(10.6)
Long-term portion	\$241.5	\$225.1

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was approximately \$9.1 million at September 30, 2006 and is included in restricted cash in the Company's Unaudited Condensed Consolidated Balance Sheets.

**Remediation**

The Company accrues for remediation costs when they become probable and reasonably estimable. Substantially all of the Company's recorded remediation costs are for incremental landfill post-closure care required under approved remediation action plans for acquired landfills. Remediation costs are estimated by engineers. These estimates do not take into account discounts for the present value of total estimated costs. Management believes that the amounts accrued for remediation costs are adequate. However, a significant change in the estimated costs for remediation could have a material effect on the Company's financial position, results of operations or cash flows.

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During the three months ended September 30, 2006, the Company charged \$4.5 million to income for remediation costs. No other significant amounts were charged to income for remediation costs during the nine months ended September 30, 2006 and 2005.

**Environmental Operating Costs**

In the normal course of business, the Company incurs various operating costs associated with environmental compliance. These costs include, among other things, leachate treatment and disposal, methane gas and groundwater monitoring and systems maintenance, interim cap maintenance, costs associated with the application of daily cover materials, and the legal and administrative costs of ongoing environmental compliance.

**Environmental Claims, Litigation and Assessments**

In the normal course of business, the Company is subject to ongoing environmental investigations by certain regulatory agencies, as well as other claims and disputes that could result in litigation. Expenses for environmental claims, litigation and assessments are accrued by the Company through a charge to income in the period such liabilities become probable and can be reasonably estimated. No significant amounts were charged to expense during the nine months ended September 30, 2006 and 2005.

**3. PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost. Expenditures for major additions and improvements to facilities are capitalized, while maintenance and repairs are charged to expense as incurred. When property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the Unaudited Condensed Consolidated Statements of Income.

The Company revises the estimated useful lives of property and equipment acquired through business acquisitions to conform with its policies regarding property and equipment. Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. The estimated useful lives are seven to forty years for buildings and improvements, five to twelve years for vehicles, seven to ten years for most landfill equipment, three to fifteen years for all other equipment, and five to twelve years for furniture and fixtures.

Landfills and landfill improvements are stated at cost and are amortized or depleted based on consumed airspace. Landfill improvements include direct costs incurred to obtain landfill permits and direct costs incurred to acquire, construct and develop sites. These costs are amortized or depleted based on consumed airspace. All indirect landfill development costs are expensed as incurred. (For further information, see Note 2, Landfill and Environmental Costs.)

The Company capitalizes interest on landfill cell construction and other construction projects in accordance with Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost. Construction projects must meet the following criteria before interest is capitalized:

1. Total construction costs are \$50,000 or greater,
2. The construction phase is one month or longer, and
3. The assets have a useful life of one year or longer.

Interest is capitalized on qualified assets while they undergo activities to ready them for their intended use. Capitalization of interest ceases once an asset is placed into service or if construction activity is suspended for more than a brief period of time. The interest capitalization rate is based upon the Company's weighted average cost of indebtedness. Interest capitalized was \$1.7 million and \$1.2 million for the nine months ended September 30, 2006 and 2005, respectively.

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A summary of property and equipment is as follows:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Other land	\$ 106.2	\$ 100.9
Non-depletable landfill land	52.2	51.6
Landfill development costs	1,670.4	1,630.0
Vehicles and equipment	1,846.5	1,746.8
Buildings and improvements	300.7	287.1
Construction-in-progress landfill	96.8	55.8
Construction-in-progress other	16.4	18.0
	4,089.2	3,890.2
Less: Accumulated depreciation, depletion and amortization		
Landfill development costs	(910.9)	(829.3)
Vehicles and equipment	(942.4)	(865.3)
Buildings and improvements	(88.6)	(80.3)
	(1,941.9)	(1,774.9)
Property and equipment, net	\$ 2,147.3	\$ 2,115.3

The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of property and equipment or whether the remaining balance of property and equipment should be evaluated for possible impairment. The following are examples of such events or changes in circumstances:

A significant decrease in the market price of a long-lived asset or asset group,

A significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition,

A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator,

An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group,

A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group, or

A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

There are certain indicators listed above that require significant judgment and understanding of the waste industry when applied to landfill development or expansion. For example, a regulator may initially deny a landfill expansion permit application though the expansion permit is ultimately granted. In addition, management may periodically divert

waste from one landfill to another to conserve remaining permitted landfill airspace. Therefore, certain events could occur in the ordinary course of business and not necessarily be considered indicators of impairment due to the unique nature of the waste industry.

The Company uses an estimate of the related undiscounted cash flows over the remaining life of the property and equipment in assessing their recoverability. The Company measures impairment loss as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Table of Contents****4. BUSINESS COMBINATIONS**

The Company acquires businesses as part of its growth strategy. Businesses acquired are accounted for under the purchase method of accounting and are included in the Consolidated Financial Statements from the date of acquisition. The Company allocates the cost of the acquired business to the assets acquired and the liabilities assumed based on estimates of fair values thereof. These estimates are revised during the allocation period as necessary if, and when, information regarding contingencies becomes available to further define and quantify assets acquired and liabilities assumed. To the extent contingencies such as preacquisition environmental matters, litigation and related legal fees are resolved or settled during the allocation period, such items are included in the revised allocation of the purchase price. After the allocation period, the effect of changes in such contingencies is included in results of operations in the periods in which the adjustments are determined. The Company does not believe potential differences between its fair value estimates and actual fair values are material.

The Company acquired various solid waste businesses during the nine months ended September 30, 2006 and 2005. The aggregate purchase price paid for these transactions was \$2.2 million and \$7.1 million, respectively. In addition, during the nine months ended September 30, 2005, the Company entered into a \$53.9 million capital lease related to a landfill. The businesses acquired during the nine months ended September 30, 2006 did not materially impact the Company's results of operations for the nine months ended September 30, 2006 or 2005 on a pro forma basis.

In March 2005, the Company divested of its operations in western New York and received proceeds of \$29.1 million during 2005. The Company recorded a gain in 2005 of \$3.3 million on the divestiture.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Intangible assets consist of the cost of acquired businesses in excess of the fair value of net assets acquired (goodwill) and other intangible assets. Other intangible assets include values assigned to customer relationships, long-term contracts and covenants not to compete and are amortized generally over periods ranging from 3 to 25 years.

The following table summarizes the activity in intangible assets and the related accumulated amortization accounts for the nine months ended September 30, 2006 and 2005:

	<b>Gross Intangible Assets</b>		
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2005	\$ 1,705.6	\$ 56.8	\$ 1,762.4
Acquisitions	(.9)	.1	(.8)
Divestitures	(.8)		(.8)
Other additions		.1	.1
Balance, September 30, 2006	\$ 1,703.9	\$ 57.0	\$ 1,760.9
	<b>Accumulated Amortization</b>		
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2005	\$(141.8)	\$(29.8)	\$(171.6)
Amortization expense		(4.3)	(4.3)
Divestitures	.1		.1
Balance, September 30, 2006	\$(141.7)	\$(34.1)	\$(175.8)



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	<b>Gross Intangible Assets</b>		
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2004	\$1,706.1	\$54.2	\$1,760.3
Acquisitions	2.9	1.7	4.6
Divestitures	(16.4)		(16.4)
Other additions		.6	.6
Balance, September 30, 2005	\$1,692.6	\$56.5	\$1,749.1

	<b>Accumulated Amortization</b>		
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2004	\$(143.4)	\$(24.0)	\$(167.4)
Amortization expense		(4.4)	(4.4)
Divestitures	1.5		1.5
Balance, September 30, 2005	\$(141.9)	\$(28.4)	\$(170.3)

Goodwill is tested for impairment on at least an annual basis. In testing for impairment, the Company estimates the fair value of each operating segment and compares the fair values with the carrying values. If the fair value of an operating segment is greater than its carrying value, then no impairment results. If the fair value is less than its carrying value, then the Company would determine the fair value of the goodwill. The fair value of goodwill is determined by deducting the fair value of an operating segment's identifiable assets and liabilities from the fair value of the operating segment as a whole, as if that operating segment had just been acquired and the purchase price were being initially allocated. If the fair value of the goodwill were less than its carrying value for a segment, an impairment charge would be recorded to earnings in the Company's Consolidated Statement of Income.

In addition, the Company would evaluate an operating segment for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

A significant adverse change in legal factors or in the business climate,

An adverse action or assessment by a regulator,

A more likely than not expectation that a segment or a significant portion thereof will be sold, or

The testing for recoverability under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment of Long-Lived Assets, of a significant asset group within the segment.

The Company incurred no impairment of goodwill as a result of its goodwill impairment test in 2005. However, there can be no assurance that goodwill will not be impaired at any time in the future.

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Notes payable and long-term debt are as follows:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
\$99.3 million unsecured notes; interest payable semi-annually in May and November at 7.125%; principal due at maturity in 2009	\$ 99.3	\$ 99.3
\$450.0 million unsecured notes, net of unamortized discount of \$1.5 million and \$1.7 million, and including \$6.1 million and \$5.5 million of adjustments to fair market value related to the interest rate swap as of September 30, 2006 and December 31, 2005, respectively; interest payable semi-annually in February and August at 6.75%; principal due at maturity in 2011	442.4	442.8
\$275.7 million unsecured notes, net of unamortized discount of \$2.2 million and including unamortized premium of \$27.2 million and \$27.4 million as of September 30, 2006 and December 31, 2005, respectively; interest payable semi-annually in March and September at 6.086%; principal due at maturity in 2035	248.3	248.1
\$750.0 million unsecured revolving credit facility; interest payable using LIBOR-based rates; maturing in 2010	165.0	
Tax-exempt bonds and other tax-exempt financing; fixed and floating interest rates based on prevailing market rates; maturities ranging from 2006 to 2037	674.5	645.4
Other debt; unsecured and secured by real property, equipment and other assets	38.1	39.5
	1,667.6	1,475.1
Less: Current portion	(2.8)	(3.0)
Long-term portion	\$ 1,664.8	\$ 1,472.1

In June 2005, the Company entered into a \$750.0 million unsecured revolving credit facility with a group of banks which expires in 2010. This facility replaced the Company's prior facilities which aggregated \$750.0 million. As of September 30, 2006, the Company had \$165.0 million of LIBOR-based borrowings and \$399.7 million of letters of credit outstanding under the revolving credit facility, leaving \$185.3 million of availability under the facility. The unsecured revolving credit facility requires the Company to maintain certain financial ratios and comply with certain financial covenants. The Company has the ability under its loan covenants to pay dividends and repurchase its common stock under the condition that it is in compliance with the covenants. At September 30, 2006, the Company was in compliance with the financial covenants under these agreements.

As of September 30, 2006, the Company had \$208.0 million of restricted cash, of which \$87.0 million represents proceeds from the issuance of tax-exempt bonds and other tax-exempt financings that will be used to fund capital expenditures. Restricted cash also includes amounts held in trust as financial guarantees of the Company's performance.

Interest paid was approximately \$78.5 million (net of capitalized interest of \$1.7 million) and \$65.8 million (net of capitalized interest of \$1.2 million) for the nine months ended September 30, 2006 and 2005, respectively.

During March 2005, the Company exchanged \$275.7 million of its outstanding 7.125% notes due 2009 for new notes due 2035. The new notes bear interest at 6.086%. The Company paid a premium of \$27.6 million in connection with the exchange. This premium is being amortized over the life of the new notes using the effective yield method.

Other debt includes a \$36.5 million capital lease liability as of September 30, 2006 related to a landfill that the Company began operating in May 2005.

The Company's ability to obtain financing through the capital markets is a key component of its financial strategy. Historically, the Company has managed risk associated with executing this strategy, particularly as it relates to fluctuations in interest rates, by using a combination of fixed and floating rate debt. The Company has also entered into interest rate swap agreements to manage risk associated with fluctuations in interest rates and to take advantage of favorable floating interest rates. The Company's outstanding swap agreement has a total notional value of \$210.0 million and matures in August 2011. This maturity is identical to the Company's public notes that were sold in 2001. Under the swap agreement, the Company

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pays interest at floating rates based on changes in LIBOR and receives interest at a fixed rate of 6.75%. The Company has designated this agreement as a hedge in changes in the fair value of the Company's hedged fixed-rate debt and accounts for it in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). The Company has determined that this agreement qualifies for the short-cut method under SFAS 133 and, therefore, changes in the fair value of the agreement are assumed to be perfectly effective in hedging changes in the fair value of the Company's hedged fixed rate debt due to changes in interest rates.

As of September 30, 2006, the interest rate swap agreement is reflected at a fair market value of \$6.1 million and is included in other liabilities and as an adjustment to long-term debt in the accompanying Unaudited Condensed Consolidated Balance Sheets. During the nine months ended September 30, 2006 and 2005, the Company recorded net interest expense of \$1.7 million and net interest income of \$1.2 million, respectively, related to its interest rate swap agreement which is included in interest expense in the accompanying Unaudited Condensed Consolidated Statements of Income.

**7. INCOME TAXES**

Income taxes have been provided for the nine months ended September 30, 2006 and 2005 based upon the Company's anticipated annual effective income tax rate. Income tax expense for the three and nine months ended September 30, 2006 includes a \$5.1 million benefit related to the favorable resolution of various income tax matters, including the effective completion of federal tax audits for the years 1998 through 2000. Income taxes paid (net of refunds received) were \$174.6 million and \$5.6 million for the nine months ended September 30, 2006 and 2005, respectively. Approximately \$83.0 million of income taxes paid during the nine months ended September 30, 2006 related to fiscal 2005. This \$83.0 million payment had been deferred as a result of an Internal Revenue Service notice issued in response to Hurricane Katrina.

**8. EMPLOYEE BENEFIT PLANS**

In July 1998, the Company adopted the 1998 Stock Incentive Plan (Stock Incentive Plan) to provide for grants of options to purchase shares of common stock, restricted stock and other equity-based compensation to employees and non-employee directors of the Company who are eligible to participate in the Stock Incentive Plan. The Company believes that such awards better align the interests of its employees with those of its shareholders. As of September 30, 2006, there were 3.3 million shares reserved for future grants under the Stock Incentive Plan.

Options granted under the Stock Incentive Plan are non-qualified and are granted at a price equal to the fair market value of the Company's common stock at the date of grant. Generally, options granted have a term of seven to ten years from the date of grant, and vest in increments of 25% per year over a four year period beginning on the first anniversary date of the grant. Options granted to non-employee directors have a term of ten years and are fully vested at the grant date.

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A summary of stock option activity for the nine months ended September 30, 2006 is as follows:

	<b>Stock Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at January 1, 2006	8.2	\$ 21.94
Granted	.9	39.03
Exercised (a)	(2.9)	21.18
Outstanding at September 30, 2006	6.2	\$ 24.81
Exercisable at September 30, 2006(b)	5.3	\$ 22.38

- (a) The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2006 was \$55.7 million.
- (b) Stock options exercisable as of September 30, 2006 have a weighted-average contractual term remaining of 5.6 years and an aggregate intrinsic value of \$94.5 million based on the market value of the Company's common stock as of September 30, 2006.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service periods. SFAS 123(R) eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which generally resulted in no compensation expense being recorded in the financial statements related to grants of stock options to employees if certain conditions were met. The pro forma impact from recognition of the estimated fair value of stock options granted to employees has historically been disclosed in the Company's footnotes as required under previous accounting

rules.

Effective for the first quarter of 2006, the Company adopted SFAS 123(R) using the modified prospective transition method, which requires recognition of compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remained outstanding at the date of adoption. Prior to the adoption of SFAS 123(R), the Company accelerated the vesting of all of its outstanding stock options previously awarded to employees as approved by the Company's Board of Directors effective December 30, 2005. Consequently, no additional compensation expense will be recognized for these options.

Prior to the adoption of SFAS 123(R), all tax benefits resulting from the exercise of stock options were reported as cash flows from operating activities in the consolidated statements of cash flows. SFAS 123(R) requires that cash flows resulting from tax benefits related to tax deductions in excess of those recorded for compensation expense (either on a pro forma or an actual basis) be classified as cash flows from financing activities. As a result, the Company classified \$11.5 million of excess tax benefits as cash flows from financing activities for the nine months ended September 30, 2006. All other tax benefits related to stock options have been presented as a component of cash flows from operating activities.

The fair value concepts for valuing equity-based compensation were not changed significantly in SFAS 123(R); however, in adopting this Statement, companies must choose among alternative valuation models and amortization assumptions. After assessing alternative valuation models and amortization assumptions, the Company changed its method of valuation for options granted beginning in fiscal 2006 to a lattice binomial option-pricing model from the Black-Scholes valuation model previously used for calculating the Company's pro forma information under SFAS 123. The Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award, or to the employee's retirement eligible date, if earlier.

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The weighted-average estimated fair value of stock options granted during the nine months ended September 30, 2006 was \$9.35 per option and was calculated using the following weighted-average assumptions:

	<b>Nine Months Ended September 30, 2006</b>
Expected volatility (a)	26.7%
Risk-free interest rate	4.6%
Dividend yield	1.4%
Expected life	4.2 years
Contractual life	7 years
Estimated forfeiture rate	5.0%

- (a) Expected volatility is based on the Company's historical stock prices over the contractual term of the options.

As a result of adopting SFAS 123(R), the charge to income from continuing operations before provision for income taxes and net income for the nine months ended September 30, 2006 for stock options granted in 2006 was \$3.6 million and \$2.2 million, respectively. The impact of adopting SFAS 123(R) for stock options on both basic and diluted earnings per share for the nine months ended September 30, 2006 was \$.02 per share.

The previously disclosed pro forma effects of recognizing the estimated fair value of equity-based compensation for the three and nine months ended September 30, 2005 are presented below:

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net income, as reported	\$ 63.8	\$ 193.7
Adjustments to net earnings for:		
Equity-based compensation expense included in net income, net of tax	.4	1.5
Pro forma equity-based employee compensation expense pursuant to SFAS 123, net of tax	(2.8)	(8.4)
Net income, pro forma	\$ 61.4	\$ 186.8
Basic earnings per share -		
As reported	\$ .46	\$ 1.35
Pro forma	\$ .44	\$ 1.30
Diluted earnings per share -		

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As reported	\$ .45	\$ 1.32
Pro forma	\$ .43	\$ 1.28
Assumptions -		
Expected volatility	30%	30%
Risk-free interest rate	3.6%	3.6%
Dividend yield	1.6%	1.6%
Expected life	5 years	5 years

During the three months ended March 31, 2006 and 2005, the Company awarded 24,000 deferred stock units to its non-employee directors under its Stock Incentive Plan. These stock units vest immediately, but the directors receive the underlying shares only after their board service ends. The stock units do not carry any voting or dividend rights, except the right to receive additional stock units in lieu of dividends.

Also during the three months ended March 31, 2006 and 2005, the Company awarded 85,000 and 82,000 shares of restricted stock, respectively, to its executive officers. 13,000 and 10,000 of the shares awarded during 2006 and 2005, respectively, vest effective January 1 of the subsequent year. The remaining shares awarded vest in four equal annual installments beginning on the anniversary date of the original grant except that vesting may be accelerated if certain performance targets are achieved. During the vesting period, the participants have voting rights and receive dividends declared and paid on the shares, but the shares may not be sold, assigned, transferred or otherwise encumbered. Additionally, granted but unvested shares are forfeited in the event the participant resigns employment with the Company for other than good reason.



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The fair value of stock units and restricted stock on the date of grant is amortized ratably over the vesting period, or the accelerated vesting period if certain performance targets are achieved. During the nine months ended September 30, 2006 and 2005, compensation expense related to stock units and restricted stock of \$4.4 million and \$2.5 million, respectively, was recorded in the Company's Unaudited Condensed Consolidated Statements of Income. The compensation expense for restricted stock recorded during the nine months ended September 30, 2006 includes \$1.5 million of incremental expense for accelerating the expense recognition period for grants to employees that are or will become retirement-eligible during the stated vesting period of the restricted stock as required under SFAS 123(R). No other stock units or restricted stock were granted during the nine months ended September 30, 2006.

A summary of deferred stock unit and restricted stock activity for the nine months ended September 30, 2006 is as follows:

	<b>Deferred Stock Units and Restricted Stock (in thousands)</b>	<b>Weighted-Average Grant Date Fair Value per Share</b>
Unissued at January 1, 2006	165	\$ 29.38
Granted	109	39.02
Vested and issued	(82)	28.81
Unissued at September 30, 2006	192	\$ 35.12
Vested and unissued at September 30, 2006	71	\$ 32.62

**9. STOCKHOLDERS EQUITY AND EARNINGS PER SHARE**

From 2000 through September 30, 2006, the Board of Directors authorized the repurchase of up to \$1,800.0 million of the Company's common stock. As of September 30, 2006, the Company had paid \$1,726.5 million to repurchase 61.9 million shares of its common stock of which 10.4 million shares were acquired during the nine months ended September 30, 2006 for \$417.7 million. In October 2006, the Company's Board of Directors authorized the repurchase of up to an additional \$250.0 million of its common stock.

In July 2003, the Company announced that its Board of Directors initiated a quarterly cash dividend of \$.06 per share. The dividend was increased to \$.12 per share in the third quarter of 2004, to \$.14 per share in the third quarter of 2005 and to \$.16 per share in the third quarter of 2006. In July 2006, the Company paid a dividend of \$18.7 million to stockholders of record as of July 3, 2006. As of September 30, 2006, the Company recorded a dividend payable of \$21.1 million to stockholders of record at the close of business on October 2, 2006. In October 2006, the Company's Board of Directors declared a regular quarterly dividend of \$.16 per share payable to stockholders of record as of January 2, 2007.

Basic earnings per share is computed by dividing net income by the weighted average number of common shares (including vested but unissued deferred stock units and restricted stock) outstanding during the period. Diluted earnings per share is based on the combined weighted average number of common shares and common share equivalents outstanding which include, where appropriate, the assumed exercise of employee stock options and unvested restricted stock awards. In computing diluted earnings per share, the Company utilizes the treasury stock method.

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Earnings per share for the three and nine months ended September 30, 2006 and 2005 is calculated as follows (in thousands, except per share data):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Numerator:				
Net income	\$ 77,300	\$ 63,800	\$212,700	\$193,700
Denominator:				
Denominator for basic earnings per share	131,659	140,032	134,732	143,574
Effect of dilutive securities				
Options to purchase common stock	1,449	2,608	1,724	2,741
Unvested restricted stock awards	1	8	3	8
Denominator for diluted earnings per share	133,109	142,648	136,459	146,323
Basic earnings per share	\$ .59	\$ .46	\$ 1.58	\$ 1.35
Diluted earnings per share	\$ .58	\$ .45	\$ 1.56	\$ 1.32
Antidilutive securities not included in the diluted earnings per share calculation:				
Options to purchase common stock	909		915	3
Weighted-average exercise price	\$ 39.03	\$	\$ 39.01	\$ 33.88

**10. OTHER COMPREHENSIVE INCOME**

During September 2006, the Company entered into a new option agreement related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. This option agreement commences on October 2, 2006 and settles each month in equal notional amounts of 500,000 gallons through December 31, 2007. In accordance with SFAS 133, \$.9 million representing the effective portion of the change in fair value as of September 30, 2006, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 2006.

During October 2005, the Company entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements commenced on January 1, 2006 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2006. In accordance with SFAS 133, \$.2 million representing the effective portion of the change in fair value as of September 30, 2006, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income. Realized losses of \$.1 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 2006.

During March 2005, the Company entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements settled each month in equal notional amounts through December 2005. In accordance with SFAS 133, \$.8 million representing the effective portion of the change in fair value for the nine months ended September 30, 2005, net of tax, was recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material for the nine months ended September 30, 2005 and was included in other income (expense), net in the Company's Unaudited Condensed Consolidated Statements of Income. Realized gains of \$1.6 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 2005.

During March 2005, the Company offered to exchange a portion of its outstanding 7.125% notes due 2009 for new notes due 2035. To protect against fluctuations in the forecasted receipt of proceeds resulting from the issuance of thirty-year, fixed rate debt due to changes in the benchmark U.S. Treasury rate, the Company entered into treasury lock agreements. In

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accordance with SFAS 133, these agreements were determined to be highly effective in offsetting changes in cash proceeds to be received upon issuance of the notes. Upon termination of these agreements in March 2005, the Company recorded a gain of \$2.3 million, net of tax, in stockholders' equity as a component of accumulated other comprehensive income. This gain is being amortized into interest expense over the life of the new notes using the effective yield method.

**11. SEGMENT INFORMATION**

The Company's operations are managed and evaluated through five regions: Eastern, Central, Southern, Southwestern and Western. These five regions are presented below as the Company's reportable segments. These reportable segments provide integrated waste management services consisting of collection, transfer and disposal of domestic non-hazardous solid waste.

Summarized financial information concerning the Company's reportable segments for the respective nine months ended September 30 is shown in the following table:

	<b>Gross</b>	<b>Intercompany</b>	<b>Net</b>	<b>Depreciation, Amortization, Operating Depletion and Accretion</b>	<b>Income</b>	<b>Capital</b>	<b>Total</b>
<b>2006</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>(c)</b>	<b>(Loss)</b>	<b>Expenditures</b>	<b>Assets</b>
Eastern Region	\$ 500.0	\$ (74.3)	\$ 425.7	\$ 33.3	\$ 70.8	\$ 28.1	\$ 886.9
Central Region	615.2	(137.1)	478.1	70.0	83.4	47.4	1,122.1
Southern Region	665.0	(67.6)	597.4	55.5	113.7	52.9	907.3
Southwestern Region	285.2	(32.8)	252.4	26.6	43.8	19.6	450.8
Western Region	686.5	(135.7)	550.8	46.4	128.1	56.4	851.1
Corporate Entities (a)				4.2	(50.0)	37.7	270.7
<b>Total</b>	<b>\$2,751.9</b>	<b>\$ (447.5)</b>	<b>\$2,304.4</b>	<b>\$ 236.0</b>	<b>\$389.8</b>	<b>\$ 242.1</b>	<b>\$4,488.9</b>

	<b>Gross</b>	<b>Intercompany</b>	<b>Net</b>	<b>Depreciation, Amortization, Operating Depletion and Accretion</b>	<b>Income</b>	<b>Capital</b>	<b>Total</b>
<b>2005</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>(c)</b>	<b>(Loss)</b>	<b>Expenditures</b>	<b>Assets</b>
Eastern Region	\$ 482.4	\$ (75.6)	\$ 406.8	\$ 33.1	\$ 67.7	\$ 58.5	\$ 876.3
Central Region	545.1	(122.0)	423.1	59.2	78.8	50.4	1,093.8
Southern Region	600.0	(65.5)	534.5	54.1	90.8	58.7	895.4
Southwestern Region	270.2	(27.6)	242.6	20.6	42.0	19.9	469.0
Western Region	652.0	(136.1)	515.9	44.7	122.2	52.0	837.2
Corporate Entities (a)	2.9		2.9	3.0	(39.7)	10.5	193.7
<b>Total</b>	<b>\$2,552.6</b>	<b>\$ (426.8)</b>	<b>\$2,125.8</b>	<b>\$ 214.7</b>	<b>\$361.8</b>	<b>\$ 250.0</b>	<b>\$4,365.4</b>

- (a) Corporate functions include legal, tax, treasury, information technology, risk management, human resources, corporate accounts and other typical administrative functions. Capital expenditures for Corporate Entities primarily include vehicle inventory acquired but not yet assigned to operating locations.
- (b) Intercompany operating revenue reflects transactions within and between segments that are generally made on a basis intended to reflect the market value of such services.
- (c) Depreciation, amortization, depletion and accretion includes a net reduction in amortization expense recorded during the three months ended

March 31, 2005  
related to  
changes in  
estimates and  
assumptions  
concerning the  
cost and timing  
of future final  
capping, closure  
and post-closure  
activities in  
accordance with  
SFAS 143.

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Total revenue of the Company by revenue source for the three and nine months ended September 30, 2006 and 2005 is as follows:

	Three Months		Nine Months	
	Ended September 30, 2006	2005	Ended September 30, 2006	2005
Collection:				
Residential	\$ 186.9	\$ 172.0	\$ 547.3	\$ 506.3
Commercial	218.3	196.6	639.0	576.9
Industrial	168.5	157.4	492.0	446.1
Other	18.4	16.1	54.7	46.9
Total collection	592.1	542.1	1,733.0	1,576.2
Transfer and disposal	305.6	292.4	892.8	833.6
Less: Intercompany	(149.9)	(145.5)	(443.6)	(422.6)
Transfer and disposal, net	155.7	146.9	449.2	411.0
Other	39.3	41.0	122.2	138.6
Revenue	\$ 787.1	\$ 730.0	\$2,304.4	\$2,125.8

**12. COMMITMENTS AND CONTINGENCIES****Legal Proceedings**

The Company is a party to various general legal proceedings which have arisen in the ordinary course of business. While the results of these matters cannot be predicted with certainty, the Company believes that losses, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. However, unfavorable resolution could affect the consolidated financial position, results of operations or cash flows for the quarterly periods in which they are resolved.

**Lease Commitments**

The Company and its subsidiaries lease real property, equipment and software under various operating leases with terms from one month to sixteen years.

**Unconditional Purchase Commitments**

The Company has various unconditional purchase commitments, consisting primarily of long-term disposal agreements, that require the Company to dispose of a minimum number of tons at certain third-party facilities.

**Liability Insurance**

The Company carries general liability, vehicle liability, employment practices liability, pollution liability, directors and officers liability, worker's compensation and employer's liability coverage, as well as umbrella liability policies to provide excess coverage over the underlying limits contained in these primary policies. The Company also carries property insurance.

The Company's insurance programs for worker's compensation, general liability, vehicle liability and employee-related health care benefits are effectively self-insured. Claims in excess of self-insurance levels are fully insured subject to policy limits. Accruals are based on claims filed and estimates of claims incurred but not reported.

The Company's liabilities for unpaid and incurred but not reported claims at September 30, 2006 (which includes claims for worker's compensation, general liability, vehicle liability and employee health care benefits) were \$156.2 million under its current risk management program and are included in other current and other liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. While the ultimate amount of claims incurred is dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future

payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in the Unaudited Condensed Consolidated Statements of Income in the periods in which such adjustments are known.



**Table of Contents****Guarantees of Subsidiary Debt**

The Company has guaranteed the tax-exempt bonds of its subsidiaries. If a subsidiary fails to meet its obligations associated with tax-exempt bonds as they come due, the Company will be required to perform under the related guarantee agreement. No additional liability has been recorded for these guarantees because the underlying obligations are reflected in the Company's Unaudited Condensed Consolidated Balance Sheets. (For further information, see Note 6, Debt.)

**Restricted Cash and Other Financial Guarantees**

In the normal course of business, the Company is required by regulatory agencies, governmental entities and contract parties to post performance bonds, letters of credit and/or cash deposits as financial guarantees of the Company's performance. A summary of letters of credit and surety bonds outstanding is as follows:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Letters of credit	\$ 585.0	\$ 550.3
Surety bonds	424.4	388.7

As of September 30, 2006, \$399.7 million of the above letters of credit were outstanding under the Company's revolving credit facility. Also, as of September 30, 2006, surety bonds expire on various dates through 2014.

The Company's restricted cash deposits include restricted cash held for capital expenditures under certain debt facilities, and restricted cash pledged to regulatory agencies and governmental entities as financial guarantees of the Company's performance related to its final capping, closure and post-closure obligations at its landfills as follows:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Restricted cash:		
Financing proceeds	\$ 87.0	\$ 144.9
Financial guarantees		25.3
Other	121.0	85.1
	208.0	255.3
Restricted marketable securities:		
Other	.3	
	\$ 208.3	\$ 255.3

**Other Matters**

The Company's business activities are conducted in the context of a developing and changing statutory and regulatory framework. Governmental regulation of the waste management industry requires the Company to obtain and retain numerous governmental permits to conduct various aspects of its operations. These permits are subject to revocation, modification or denial. The costs and other capital expenditures which may be required to obtain or retain the applicable permits or comply with applicable regulations could be significant. Any revocation, modification or denial of permits could have a material adverse effect on the Company.

The Company is subject to various federal, state and local tax rules and regulations. The Company's compliance with such rules and regulations is periodically audited by tax authorities. These authorities may challenge the positions taken in the Company's tax filings. As such, the Company may have additional tax liabilities if, upon audit, any positions taken are disallowed by taxing authorities.

The Internal Revenue Service is auditing the Company's consolidated tax returns for fiscal years 2001 through 2004. Management believes that the tax liabilities recorded are adequate. However, a significant assessment in excess

of liabilities recorded against the Company could have a material adverse effect on the Company's financial position, results of operations or cash flows.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Form 10-K for the year ended December 31, 2005.

**Overview of Our Business**

We are a leading provider of non-hazardous solid waste collection and disposal services in the United States. We provide solid waste collection services for commercial, industrial, municipal and residential customers through 138 collection companies in 21 states. We also own or operate 94 transfer stations, 59 solid waste landfills and 33 recycling facilities.

We generate revenue primarily from our solid waste collection operations. Our remaining revenue is from other services including landfill disposal, recycling, compost, mulch and soil operations.

The following table reflects our revenue by source for the three and nine months ended September 30, 2006 and 2005 (in millions):

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
Collection:								
Residential	\$ 186.9	23.8%	\$ 172.0	23.6%	\$ 547.3	23.8%	\$ 506.3	23.8%
Commercial	218.3	27.7	196.6	26.9	639.0	27.7	576.9	27.2
Industrial	168.5	21.4	157.4	21.6	492.0	21.3	446.1	21.0
Other	18.4	2.3	16.1	2.2	54.7	2.4	46.9	2.2
Total collection	592.1	75.2	542.1	74.3	1,733.0	75.2	1,576.2	74.2
Transfer and disposal	305.6		292.4		892.8		833.6	
Less: Intercompany	(149.9)		(145.5)		(443.6)		(422.6)	
Transfer and disposal, net	155.7	19.8	146.9	20.1	449.2	19.5	411.0	19.3
Other	39.3	5.0	41.0	5.6	122.2	5.3	138.6	6.5
Revenue	\$ 787.1	100.0%	\$ 730.0	100.0%	\$2,304.4	100.0%	\$2,125.8	100.0%

Our revenue from collection operations consists of fees we receive from commercial, industrial, municipal and residential customers. Our residential and commercial collection operations in some markets are based on long-term contracts with municipalities. We generally provide industrial and commercial collection services to individual customers under contracts with terms up to three years. Our revenue from landfill operations is from disposal or tipping fees charged to third parties. In general, we integrate our recycling operations with our collection operations and obtain revenue from the sale of recyclable materials. No one customer has individually accounted for more than 10% of our consolidated revenue or of our reportable segment revenue in any of the periods presented.

The cost of our collection operations is primarily variable and includes disposal, labor, self-insurance, fuel and equipment maintenance costs. We seek operating efficiencies by controlling the movement of waste from the point of collection through disposal. During the three months ended September 30, 2006 and 2005, approximately 56% of the total volume of waste we collected was disposed of at landfills we own or operate.

Our landfill costs include daily operating expenses, costs of capital for cell development, costs for final capping, closure and post-closure, and the legal and administrative costs of ongoing environmental compliance. Daily operating expenses include leachate treatment and disposal, methane gas and groundwater monitoring and system maintenance, interim cap maintenance, and costs associated with the application of daily cover materials. We expense all indirect landfill development costs as they are incurred. We use life cycle accounting and the units-of-consumption method to recognize certain direct landfill costs related to cell development. In life cycle accounting, certain direct costs are capitalized, and charged to expense based upon the consumption of cubic yards of available airspace. These costs include all costs to acquire and construct a site

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including excavation, natural and synthetic liners, construction of leachate collection systems, installation of methane gas collection and monitoring systems, installation of groundwater monitoring wells, and other costs associated with the acquisition and development of the site. Obligations associated with final capping, closure and post-closure are capitalized and amortized on a units-of-consumption basis as airspace is consumed.

Cost and airspace estimates are developed at least annually by engineers. These estimates are used by our operating and accounting personnel to adjust our rates used to expense capitalized costs. Changes in these estimates primarily relate to changes in costs, available airspace, inflation and applicable regulations. Changes in available airspace include changes in design and changes due to the addition of airspace lying in expansion areas that we believe have a probable likelihood of being permitted.

Summarized financial information concerning our reportable segments for the respective nine months ended September 30, 2006 and 2005 is shown in the following table:

	<b>Depreciation, Amortization, Operating Depletion and Income Operating Margin</b>					
<b>2006</b>	<b>Net Revenue</b>	<b>and Accretion</b>	<b>Income (Loss)</b>	<b>Operating Margin</b>		
Eastern Region	\$ 425.7	\$ 33.3	\$ 70.8	16.6%		
Central Region	478.1	70.0	83.4	17.4		
Southern Region	597.4	55.5	113.7	19.0		
Southwestern Region	252.4	26.6	43.8	17.4		
Western Region	550.8	46.4	128.1	23.3		
Corporate Entities		4.2	(50.0)			
<b>Total</b>	<b>\$2,304.4</b>	<b>\$ 236.0</b>	<b>\$389.8</b>	<b>16.9</b>		

  

	<b>Depreciation, Amortization, Depletion and Accretion Before SFAS 143 Adjustments to Amortization Expense for Changes in Estimates and Assumptions</b>						<b>Depreciation, Amortization, and Operating Income Operating Margin</b>	
<b>2005</b>	<b>Net Revenue</b>	<b>SFAS 143 Adjustments</b>	<b>(a)</b>	<b>Accretion</b>	<b>(Loss)</b>	<b>Operating Margin</b>		
Eastern Region	\$ 406.8	\$ 33.2	\$ (.1)	\$ 33.1	\$ 67.7	16.6%		
Central Region	423.1	60.2	(1.0)	59.2	78.8	18.6		
Southern Region	534.5	55.2	(1.1)	54.1	90.8	17.0		
Southwestern Region	242.6	24.9	(4.3)	20.6	42.0	17.3		
Western Region	515.9	44.1	.6	44.7	122.2	23.7		
Corporate Entities	2.9	3.0		3.0	(39.7)			
<b>Total</b>	<b>\$2,125.8</b>	<b>\$ 220.6</b>	<b>\$ (5.9)</b>	<b>\$ 214.7</b>	<b>\$361.8</b>	<b>17.0</b>		

(a)

During the three months ended March 31, 2005, we completed a review of our landfill asset retirement obligations in accordance with SFAS 143 and recorded a reduction of \$5.9 million in amortization expense primarily related to changes in estimates and assumptions concerning the cost and timing of future capping, closure and post-closure activities. We intend to conduct our future annual reviews of our landfill asset retirement obligations during the fourth quarter of each year.

Our operations are managed and reviewed through five Regions that we designate as our reportable segments. From 2005 to 2006, operating income increased in all of our Regions due to the successful execution of our pricing strategy.

Revenue in our Eastern Region increased during 2006 compared to 2005 due to price increases in our collection and landfill lines of business and due to increased volume in our industrial collection and landfill businesses. This increase in revenue was partially offset by the sale of our operations in western New York during the three months ended March 31, 2005. Operating margins remained constant from 2005 to 2006. The increase in operating margins associated with higher revenue was offset by higher fuel and landfill operating costs.

In our Central Region, revenue increased during 2006 compared to 2005 due to price increases in our collection and landfill lines of business and volume growth in our landfill line of business arising from favorable

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economic conditions. Operating margins decreased because of higher fuel costs, an increase in landfill amortization resulting from higher costs and adjustments to landfill amortization expense associated with SFAS 143 recorded during the three months ended March 31, 2005, partially offset by an increase in revenue during 2006.

Our operations in the Southern Region benefited from price and volume growth in our collection and landfill lines of business. Operating margins increased because of an increase in revenue arising from favorable economic conditions, partially offset by higher fuel costs and adjustments to landfill amortization expense associated with SFAS 143 recorded during the three months ended March 31, 2005.

In our Southwestern Region, revenue increased due to price increases and volume growth in our collection and landfill lines of business, partially offset by the sale of our remediation and heavy construction services business during the fourth quarter of 2005. The increase in operating margins from 2005 to 2006 is attributable to an increase in revenue arising from improving economic conditions, partially offset by higher fuel costs and adjustments to landfill amortization expense associated with SFAS 143 recorded during the three months ended March 31, 2005.

In our Western Region, revenue increased due to price increases in our collection and landfill lines of business. Operating margins decreased from 2005 to 2006 because of higher fuel and labor costs partially offset by an increase in revenue during 2006.

The increase in operating costs for Corporate Entities from 2005 to 2006 is primarily due to the expansion of our business.

**Business Combinations**

We make decisions to acquire or invest in businesses based on financial and strategic considerations. Businesses acquired are accounted for under the purchase method of accounting and are included in our Unaudited Condensed Consolidated Financial Statements from the date of acquisition.

We acquired various solid waste businesses during the nine months ended September 30, 2006 and 2005. The aggregate purchase price we paid in these transactions was \$2.2 million and \$7.1 million in cash, respectively. In addition, during the nine months ended September 30, 2005, we entered into a \$53.9 million capital lease related to a landfill.

We divested of our operations in western New York during the three months ended March 31, 2005 and received proceeds of approximately \$29.1 million during 2005. We recorded a gain in 2005 of \$3.3 million on the divestiture.

See Note 4, Business Combinations, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of business combinations.

**Consolidated Results of Operations**

Our net income was \$77.3 million, or \$.58 per diluted share, for the three months ended September 30, 2006, as compared to \$63.8 million, or \$.45 per diluted share, for the three months ended September 30, 2005. Our net income was \$212.7 million, or \$1.56 per diluted share, for the nine months ended September 30, 2006, as compared to \$193.7 million, or \$1.32 per diluted share, for the nine months ended September 30, 2005.

During the three months ended September 30, 2006, we recorded a \$5.1 million net income tax benefit in our provision for income taxes. This benefit relates to the resolution of various income tax matters including the effective completion of federal tax audits for the years 1998 through 2000.

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, effective January 1, 2006 using the modified prospective transition method. As a result of adopting SFAS 123(R), we recorded \$1.2 million and \$5.1 million of incremental equity-based compensation expense during the three and nine months ended September 30, 2006. In accordance with the modified prospective transition method, our Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of adopting SFAS 123(R). See Note 8, Employee Benefit Plans, of the Notes to our Unaudited Condensed Consolidated Financial

Statements for further information.



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The following table summarizes our costs and expenses for the three and nine months ended September 30, 2006 and 2005 (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
Revenue	\$787.1	100.0%	\$730.0	100.0%	\$2,304.4	100.0%	\$2,125.8	100.0%
Cost of operations	493.2	62.7	462.9	63.4	1,442.1	62.6	1,332.9	62.7
Depreciation, amortization and depletion of property and equipment	75.1	9.6	70.4	9.6	219.1	9.5	198.6	9.3
Amortization of intangible assets	1.8	.2	1.8	.3	5.3	.2	5.4	.3
Accretion	4.0	.5	3.7	.5	11.6	.5	10.7	.5
Selling, general and administrative expenses	79.6	10.1	71.8	9.8	236.5	10.3	216.4	10.2
Operating income	\$133.4	16.9%	\$119.4	16.4%	\$389.8	16.9%	\$361.8	17.0%

*Revenue.* Revenue was \$787.1 million and \$730.0 million for the three months ended September 30, 2006 and 2005, respectively, an increase of 7.8%. Revenue was \$2,304.4 million and \$2,125.8 million for the nine months ended September 30, 2006 and 2005, respectively, an increase of 8.4%. The following table reflects the components of our revenue growth for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Core price	3.8%	3.0%	3.4%	2.6%
Fuel surcharges	1.4	.8	1.4	.6
Environmental fees	.3	.3	.3	.1
Recycling commodities		.1	(.3)	.2
Total price	5.5	4.2	4.8	3.5
Core volume (a)	1.9	1.8	3.5	2.2
Non-core volume	.1	(1.0)	.1	(.3)
Total volume	2.0	.8	3.6	1.9
Total internal growth	7.5	5.0	8.4	5.4
Acquisitions, net of divestitures	.2	(.7)	(.1)	(.2)

Taxes (b)	.1		.1	
Total revenue growth	7.8%	4.3%	8.4%	5.2%

(a) Core volume growth for the three and nine months ended September 30, 2006 includes .9% and .7%, respectively, associated with hauling waste from the City of Toronto to one of our landfills in Michigan. This hauling service is provided to the City at a rate that approximates our cost.

(b) Represents new taxes levied on landfill volumes in certain states that are passed on to customers.

During the three and nine months ended September 30, 2006, our revenue growth from core pricing continued to benefit from a broad-based pricing initiative which we started during the fourth quarter of 2003. We anticipate that we will continue to realize this benefit during the fourth quarter of 2006. During the three and nine months ended September 30, 2006, we experienced core volume growth in our residential collection, commercial collection, industrial collection and landfill businesses.

*Cost of Operations.* Cost of operations was \$493.2 million and \$1,442.1 million for the three and nine months ended September 30, 2006, versus \$462.9 million and \$1,332.9 for the comparable 2005 periods. Cost of operations as a percentage of revenue was 62.7% and 62.6% for the three and nine months ended September 30, 2006, versus 63.4% and 62.7% for the comparable 2005 periods. The increase in cost of operations in aggregate dollars is primarily a result of the expansion of our business through internal growth.

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The following table summarizes the major components of our cost of operations for the three and nine months ended September 30, 2006 and 2005 in millions of dollars and as a percentage of our revenue:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
Subcontractor, disposal and third-party fees	\$ 189.3	24.1%	\$ 175.5	24.1%	\$ 544.3	23.6%	\$ 510.7	24.0%
Labor and benefits	149.6	19.0	145.3	19.9	441.1	19.2	417.0	19.6
Maintenance and operating	118.1	15.0	106.1	14.5	340.9	14.8	295.6	13.9
Insurance and other	36.2	4.6	36.0	4.9	115.8	5.0	109.6	5.2
Total	\$493.2	62.7%	\$462.9	63.4%	\$1,442.1	62.6%	\$1,332.9	62.7%

A description of our cost categories is as follows:

Subcontractor, disposal and third-party fees include costs such as third-party disposal, transportation of waste, host fees and cost of goods sold. The decrease in such expenses as a percentage of revenue for the nine months ended September 30, 2006 versus the comparable 2005 period is primarily due to higher revenue resulting from improved pricing.

Labor and benefits include costs such as wages, salaries, payroll taxes and health benefits for our frontline service employees and their supervisors. The decrease in such expenses as a percentage of revenue for the three and nine months ended September 30, 2006 versus the comparable 2005 periods is primarily due to higher revenue resulting from improved pricing and productivity improvements in our commercial and industrial collection lines of business.

Maintenance and operating includes costs such as fuel, parts, shop labor and benefits, third-party repairs, and landfill monitoring and operating. The increase in such expenses as a percentage of revenue for the three and nine months ended September 30, 2006 versus the comparable 2005 periods is primarily due to increases in fuel and landfill operating costs. The cost of fuel as a percentage of revenue increased by .5% and .8% during the three and nine months ended September 30, 2006 versus the comparable 2005 periods, respectively.

Insurance and other includes costs such as worker's compensation, auto and general liability insurance, property taxes, property maintenance and utilities. The decrease in such expenses as a percentage of revenue for the three and nine months ended September 30, 2006 versus the comparable 2005 periods is primarily due to favorable claims development.

The cost categories shown above may change from time to time and may not be comparable to similarly titled categories used by other companies. As such, care should be taken when comparing our cost of operations by cost component to that of other companies.

*Depreciation, Amortization and Depletion of Property and Equipment.* Depreciation, amortization and depletion expenses for property and equipment were \$75.1 million and \$219.1 million for the three and nine months ended September 30, 2006, versus \$70.4 million and \$198.6 million for the comparable 2005 periods. Depreciation, amortization and depletion of property and equipment as a percentage of revenue was 9.6% and 9.5% for the three and nine months ended September 30, 2006, versus 9.6% and 9.3% for the comparable 2005 periods. The increase in such expenses in aggregate dollars is primarily due to the expansion of our business. The increase in such expenses as a percentage of revenue for the nine month periods presented is due to a reduction in landfill amortization expense of

\$5.9 million that we recorded during the first quarter of 2005 related to the review of our calculations with respect to landfill asset retirement obligations.

*Amortization of Intangible and Other Assets.* Expenses for amortization of intangible and other assets were \$1.8 million and \$5.3 million for the three and nine months ended September 30, 2006, versus \$1.8 million and \$5.4 million for the comparable 2005 periods. Amortization of intangible assets as a percentage of revenue was .2% for the three and nine months ended September 30, 2006, versus .3% for the comparable 2005 periods. The decrease in amortization of intangible

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and other assets as a percentage of revenue for the 2006 periods presented compared to the 2005 periods is due to an increase in revenue during 2006.

*Accretion Expense.* Accretion expense was \$4.0 million and \$11.6 million for the three and nine months ended September 30, 2006, versus \$3.7 million and \$10.7 million for the comparable 2005 periods. Accretion expense as a percentage of revenue was .5% for the three and nine months ended September 30, 2006 and 2005.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$79.6 million and \$236.5 million for the three and nine months ended September 30, 2006, versus \$71.8 million and \$216.4 million for the comparable 2005 periods. Selling, general and administrative expenses as a percentage of revenue were 10.1% and 10.3% for the three and nine months ended September 30, 2006, versus 9.8% and 10.2% for the comparable 2005 periods. The increase in such expenses in aggregate dollars is primarily due to the expansion of our business. The increase in such expenses as a percentage of revenue for the three month periods presented is due to incremental costs associated with our adoption of SFAS 123(R), additional costs associated with our 401(k) plan resulting from an increase in the employers matching contribution percentage and an increase in other incentive compensation. Selling, general and administrative expenses as a percentage of revenue for the nine month periods presented remained relatively consistent. During the nine months ended September 30, 2005, we incurred approximately \$3.0 million of costs associated with the exchange of unsecured notes. During the nine months ended September 30, 2006, we incurred \$5.1 million of incremental costs associated with our adoption of SFAS 123(R). We also incurred additional costs in 2006 associated with our 401(k) plan due to an increase in the employer matching contribution percentage and an increase in bad debt expense. These increases in costs as a percentage of revenue during the nine months ended September 30, 2006 were partially offset by an increase in revenue. We believe selling, general and administrative costs as a percentage of revenue for the year ended December 31, 2006 will be approximately 10 percent.

*Interest Expense.* We incurred interest expense primarily on our unsecured notes and tax-exempt bonds. Interest expense was \$25.1 million and \$71.5 million for the three and nine months ended September 30, 2006, versus \$20.0 million and \$60.8 million for the comparable 2005 periods. The increase in interest expense during the three and nine months ended September 30, 2006 versus the comparable 2005 periods is due to increases in debt balances and short-term interest rates.

Capitalized interest was \$.8 million and \$1.7 million for the three and nine months ended September 30, 2006, versus \$.7 million and \$1.2 million for the comparable 2005 periods.

*Interest and Other Income (Expense), Net.* Interest and other income, net of other expense, was \$8.1 million and \$16.5 million for the three and nine months ended September 30, 2006, versus \$3.5 million and \$11.4 million for the comparable 2005 periods. During the three months ended September 30, 2006, we recognized a gain on the sale of surplus property.

*Income Taxes.* The provision for income taxes was \$39.1 million and \$122.1 million for the three and nine months ended September 30, 2006, versus \$39.1 million and \$118.7 million for the comparable 2005 periods. Our effective income tax rate was 33.6% and 36.5% for the three and nine months ended September 30, 2006 versus 38% for the comparable 2005 periods. Income taxes have been provided based upon our anticipated annual effective tax rate. Income tax expense for the three and nine months ended September 30, 2006 includes a \$5.1 million benefit related to the favorable resolution of various income tax matters, including the effective completion of federal tax audits for the years 1998 through 2000.

**Table of Contents****Landfill and Environmental Matters***Available Airspace*

The following table reflects landfill airspace activity for landfills owned or operated by us for the nine months ended September 30, 2006:

	<b>Balance as of December 31, 2005</b>	<b>Permits Granted</b>	<b>Airspace Consumed</b>	<b>Changes in Engineering Estimates</b>	<b>Balance as of September 30, 2006</b>
Permitted airspace:					
Cubic yards (in millions)	1,577.7	56.6	(33.2)	6.4	1,607.5
Number of sites	59				59
Probable expansion airspace:					
Cubic yards (in millions)	177.7	(52.5)		(.6)	124.6
Number of sites	9	(1)			8
Total available airspace:					
Cubic yards (in millions)	1,755.4	4.1	(33.2)	5.8	1,732.1
Number of sites	59				59

Changes in engineering estimates typically include minor modifications to the available disposal capacity of a landfill based on a refinement of the capacity calculations resulting from updated information. Changes in design typically include significant modifications to a landfill's footprint or vertical slopes.

During 2006, total available airspace decreased by 23.3 million cubic yards primarily due to airspace consumed partially offset by permits granted and changes in engineering estimates.

As of September 30, 2006, we owned or operated 59 solid waste landfills with total available disposal capacity estimated to be 1.7 billion in-place cubic yards. Total available disposal capacity represents the sum of estimated permitted airspace plus an estimate of probable expansion airspace. These estimates are developed at least annually by engineers utilizing information provided by annual aerial surveys. As of September 30, 2006, total available disposal capacity is estimated to be 1.6 billion in-place cubic yards of permitted airspace plus .1 billion in-place cubic yards of probable expansion airspace. Before airspace included in an expansion area is determined to be probable expansion airspace and, therefore, included in our calculation of total available disposal capacity, it must meet our expansion criteria. See Note 2, Landfill and Environmental Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

As of September 30, 2006, eight of our landfills meet the criteria for including probable expansion airspace in their total available disposal capacity. At projected annual volumes, these eight landfills have an estimated remaining average site life of 29 years, including the probable expansion airspace. The average estimated remaining life of all of our landfills is 28 years. Probable expansion airspace represents 7.2% of our total available airspace. We have other expansion opportunities that are not included in our total available airspace because they do not meet our criteria for probable expansion airspace.

*Final Capping, Closure and Post-Closure Costs*

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As of September 30, 2006, accrued final capping, closure and post-closure costs were \$263.0 million. The current portion of these costs of \$21.5 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in other current liabilities. The long-term portion of these costs of \$241.5 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in accrued landfill and environmental costs.

**Table of Contents****Investment in Landfills**

The following table reflects changes in our investment in landfills for the nine months ended September 30, 2006 (in millions):

	Balance as of December 31, 2005	Capital Additions	Retirement Obligations	Non-Cash Additions for Asset Retirement Obligations	Additions Charged to Expense	Revisions in Estimates of Future Cash Flows	Transfers and Other Adjustments	Balance as of September 30, 2006
Non-depletable landfill land	\$ 51.6	\$ .6	\$	\$	\$	\$	\$	\$ 52.2
Landfill development costs	1,630.0	.2	(3.3)	17.3		.8	25.4	1,670.4
Construction in progress landfill	55.8	65.5					(24.5)	96.8
Accumulated depletion and amortization	(829.3)		3.3		(84.4)		(.5)	(910.9)
Net investment in landfill land and development costs	\$ 908.1	\$66.3	\$	\$17.3	\$(84.4)	\$ .8	\$ .4	\$ 908.5

The following table reflects our future expected investment in our landfills as of September 30, 2006 (in millions):

	Balance as of September 30, 2006	Expected Future Investment	Total Expected Investment
Non-depletable landfill land	\$ 52.2	\$	\$ 52.2
Landfill development costs	1,670.4	1,629.6	3,300.0
Construction in progress landfill	96.8		96.8
Accumulated depletion and amortization	(910.9)		(910.9)
Net investment in landfill land and development costs	\$ 908.5	\$1,629.6	\$2,538.1

The following table reflects our net investment in our landfills, excluding non-depletable land, and our depletion, amortization and accretion expense for the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,	
	2006	2005
Number of landfills owned or operated	59	59



Net investment, excluding non-depletable land (in millions)	\$ 856.3	\$ 852.3
Total estimated available disposal capacity (in millions of cubic yards)	1,732.1	1,766.0
Net investment per cubic yard	\$ .49	\$ .48
Landfill depletion and amortization expense (in millions)	\$ 84.4	\$ 75.2
Accretion expense (in millions)	11.6	10.7
	96.0	85.9
Airspace consumed (in millions of cubic yards)	33.2	32.7
Depletion, amortization and accretion expense per cubic yard of airspace consumed	\$ 2.89	\$ 2.63

The increase in depletion, amortization and accretion expense per cubic yard of airspace consumed from 2005 to 2006 is primarily due to a \$5.9 million reduction in landfill amortization expense we recorded during the first quarter of 2005 related to the review of our calculations with respect to landfill asset retirement obligations in connection with SFAS 143.

During the nine months ended September 30, 2006 and 2005, our weighted average compaction rate, which is based on historical data, was approximately 1,500 pounds per cubic yard.

As of September 30, 2006, we expect to spend an estimated additional \$1.6 billion on existing landfills, primarily related to cell construction and environmental structures, over their expected remaining lives. Our total expected investment,

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excluding non-depletable land, estimated to be \$2.5 billion, or \$1.44 per cubic yard, is used in determining our depletion and amortization expense based upon airspace consumed using the units-of-consumption method.

We accrue costs related to environmental remediation activities through a charge to income in the period such liabilities become probable and can be reasonably estimated. We also accrue costs related to environmental remediation activities associated with properties acquired through business combinations as a charge to cost in excess of fair value of net assets acquired or landfill purchase price allocated to airspace, as appropriate. During the three months ended September 30, 2006, we charged \$4.5 million to income for remediation costs. No other significant amounts were charged to expense during the nine months ended September 30, 2006 and 2005.

**Financial Condition**

At September 30, 2006, we had \$49.3 million of cash and cash equivalents. We also had \$208.3 million of restricted cash deposits and marketable securities, including \$87.0 million of restricted cash held for capital expenditures under certain debt facilities.

In June 2005, we entered into a new \$750.0 million unsecured revolving credit facility with a group of banks which expires in 2010. This facility replaced our prior facilities which aggregated \$750.0 million. Borrowings under the credit facility bear interest at LIBOR-based rates. We use our operating cash flow and proceeds from our credit facilities to finance our working capital, capital expenditures, acquisitions, share repurchases, dividends and other requirements. As of September 30, 2006, we had \$185.3 million available under the credit facility.

In May 1999, we sold \$375.0 million of unsecured notes in the public market. These notes bear interest at 7.125% per annum and mature in 2009. Interest is payable semi-annually in May and November. The notes were offered at a discount of \$.5 million. In March 2005, we exchanged \$275.7 million of our outstanding 7.125% notes due 2009 for new notes due 2035. The new notes bear interest at 6.086%. We paid a premium of \$27.6 million related to the exchange. This premium is being amortized over the life of the new notes using the effective yield method.

In August 2001, we sold \$450.0 million of unsecured notes in the public market. The notes bear interest at 6.75% and mature in 2011. Interest on these notes is payable semi-annually in February and August. The notes were offered at a discount of \$2.6 million.

In March 2005, we entered into a \$53.9 million capital lease related to a landfill.

In order to manage risk associated with fluctuations in interest rates and to take advantage of favorable floating interest rates, we have entered into an interest rate swap agreement with investment grade-rated financial institutions. Our outstanding swap agreement has a total notional value of \$210.0 million and requires our company to pay interest at a floating rate based upon changes in LIBOR and receive interest at a fixed rate of 6.75%. Our swap agreement matures in August 2011.

At September 30, 2006, we had \$674.5 million of tax-exempt bonds and other tax-exempt financings outstanding. Borrowings under these bonds and other financings bear interest based on fixed or floating interest rates at the prevailing market rates and have maturities ranging from 2006 to 2037. As of September 30, 2006, we had \$87.0 million of restricted cash related to proceeds from tax-exempt bonds and other tax-exempt financings. This restricted cash will be used to fund capital expenditures under the terms of the agreements.

We believe that our excess cash, cash from operating activities and our revolving credit facility provide us with sufficient financial resources to meet our anticipated capital requirements and obligations as they come due. We believe that we will be able to raise additional debt or equity financing, if necessary.

**Table of Contents****Selected Balance Sheet Accounts**

The following table reflects the activity in our allowance for doubtful accounts, final capping, closure, post-closure and remediation liabilities, and accrued self-insurance during the nine months ended September 30, 2006 (in millions):

	<b>Allowance for Doubtful Accounts</b>	<b>Final Capping, Closure and Post-Closure</b>	<b>Remediation</b>	<b>Self-Insurance</b>
Balance, December 31, 2005	\$ 17.3	\$ 239.5	\$ 50.3	\$ 158.6
Non-cash asset additions		17.3		
Accretion expense		11.6		
Revisions in estimates of future cash flows		.8		
Other additions charged to expense	7.0		4.5	121.1
Payments or usage	(4.9)	(6.2)	(7.0)	(123.5)
Balance, September 30, 2006	19.4	263.0	47.8	156.2
Less: Current portion	(19.4)	(21.5)	(11.5)	(60.2)
Long-term portion	\$	\$ 241.5	\$ 36.3	\$ 96.0

Our expense related to our allowance for doubtful accounts as a percentage of revenue for the nine months ended September 30, 2006 was .3%. As of September 30, 2006, accounts receivable were \$311.5 million, net of allowance for doubtful accounts of \$19.4 million, resulting in days sales outstanding of 35, or 23 days net of deferred revenue. In addition, at September 30, 2006, our accounts receivable in excess of 90 days old totaled \$20.5 million, or 6.2% of gross receivables outstanding.

**Property and Equipment**

The following tables reflect the activity in our property and equipment accounts for the nine months ended September 30, 2006 (in millions):

	<b>Gross Property and Equipment Non-Cash Additions</b>							<b>Balance as of September 30, 2006</b>
	<b>Balance as of December 31, 2005</b>	<b>Capital Additions</b>	<b>Retirements</b>	<b>Acquisitions, Net of Divestitures</b>	<b>for Asset Retirement Obligations</b>	<b>Revisions in Estimates of Future Cash Flows</b>	<b>Transfers And Other Adjustments</b>	
Other land	\$ 100.9	\$ 5.9	\$ (1.1)	\$ .5	\$	\$	\$	\$ 106.2
Non-depletable landfill land	51.6	.6						52.2
Landfill development costs	1,630.0	.2	(3.3)		17.3	.8	25.4	1,670.4
Vehicles and equipment	1,746.8	156.4	(55.9)	(1.5)			.7	1,846.5
	287.1	1.8	(1.2)	.8			12.2	300.7

Buildings and improvements								
Construction in progress landfill	55.8	65.5				(24.5)		96.8
Construction in progress other	18.0	11.7				(13.3)		16.4
Total	\$3,890.2	\$242.1	\$(61.5)	\$ (.2)	\$ 17.3	\$ .8	\$ .5	\$4,089.2

#### Accumulated Depreciation, Amortization and Depletion

	Balance as of December 31, 2005	Additions Charged to Expense	Retirements	Acquisitions, Net of Divestitures	Transfers and Other Adjustments	Balance as of September 30, 2006
Landfill development costs	\$ (829.3)	\$ (84.4)	\$ 3.3	\$	\$ (.5)	\$ (910.9)
Vehicles and equipment	(865.3)	(126.0)	46.6	2.3		(942.4)
Buildings and improvements	(80.3)	(8.7)	.4			(88.6)
Total	\$(1,774.9)	\$(219.1)	\$ 50.3	\$ 2.3	\$ (.5)	\$(1,941.9)

#### Liquidity and Capital Resources

The major components of changes in cash flows for the nine months ended September 30, 2006 and 2005 are discussed below.

*Cash Flows From Operating Activities.* Cash provided by operating activities was \$300.8 million and \$493.7 million for the nine months ended September 30, 2006 and 2005, respectively. The changes in cash provided by operating activities during the periods are primarily due to the expansion of our business, the timing of payments received for accounts receivable, and the timing of payments made for accounts payable. Additionally, during the nine months ended

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September 30, 2006, we paid approximately \$83.0 million in income taxes related to fiscal 2005. This tax payment had been deferred as a result of an Internal Revenue Service notice issued in response to Hurricane Katrina.

We use cash flows from operations to fund capital expenditures, acquisitions, share repurchases, dividend payments and debt repayments.

*Cash Flows Used In Investing Activities.* Cash used in investing activities was \$176.4 million and \$111.9 million for the nine months ended September 30, 2006 and 2005, respectively, and consists primarily of cash used for capital additions in 2006 and 2005, cash provided by restricted cash in 2006 and 2005, and cash provided by marketable securities and the disposition of our operations in western New York in 2005. Capital additions were \$242.1 million and \$250.0 million for the nine months ended September 30, 2006 and 2005, respectively.

We intend to finance capital expenditures and acquisitions through cash, restricted cash held for capital expenditures, cash flow from operations, our revolving credit facility, tax-exempt bonds and other financings. We expect to use primarily cash for future business acquisitions.

*Cash Flows Used In Financing Activities.* Cash used in financing activities for the nine months ended September 30, 2006 and 2005 was \$206.9 million and \$489.5 million, respectively, and consists primarily of purchases of common stock for treasury, proceeds from and payments of notes payable and long-term debt, proceeds from stock option exercises, and payments of cash dividends.

From 2000 through the period ended September 30, 2006, our board of directors authorized the repurchase of up to \$1,800.0 million of our common stock. As of September 30, 2006, we had paid \$1,726.5 million to repurchase 61.9 million shares of our common stock, of which \$417.7 million was paid during the nine months ended September 30, 2006 to repurchase 10.4 million shares of our common stock.

We intend to finance future stock repurchases and dividend payments through cash on hand, cash flow from operations, our revolving credit facility and other financings.

**Credit Ratings**

Our company has received investment grade credit ratings. As of September 30, 2006, our senior debt was rated BBB+ by Standard & Poor's, BBB+ by Fitch and Baa2 by Moody's.

**Fuel Hedges**

During September 2006, we entered into a new option agreement related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges in the prices of forecasted diesel fuel purchases. These option agreements commence on October 2, 2006 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2007. In accordance with SFAS 133, the effective portion of the change in fair value as of September 30, 2006, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

During October 2005, we entered into option agreements related to forecasted diesel fuel purchases. Under SFAS 133, the options qualified for and were designated as effective hedges of changes in the prices of forecasted diesel fuel purchases. These option agreements commenced on January 1, 2006 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2006. In accordance with SFAS 133, the effective portion of the change in fair value as of September 30, 2006, net of tax, has been recorded in stockholders' equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

During March 2005, we entered into option agreements related to forecasted diesel fuel purchases. The option agreements settled each month in equal notional amounts through December 31, 2005. In accordance with SFAS 133, the ineffective portion of the change in fair value for the nine months ended September 30, 2005 was not material and was included in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

**Table of Contents****Free Cash Flow**

We define free cash flow, which is not a measure determined in accordance with Generally Accepted Accounting Principles in the United States, as cash provided by operating activities less purchases of property and equipment plus proceeds from sales of property and equipment as presented in our Unaudited Condensed Consolidated Statements of Cash Flows. Our free cash flow for the three and nine months ended September 30, 2006 is calculated as follows (in millions):

	<b>Three Months Ended September 30, 2006</b>	<b>Nine Months Ended September 30, 2006</b>
Cash provided by operating activities	\$ 154.0	\$ 300.8
Purchases of property and equipment	(63.9)	(242.1)
Proceeds from sales of property and equipment	8.9	17.5
Free cash flow	\$ 99.0	\$ 76.2

Free cash flow for the nine months ended September 30, 2006 was negatively impacted because of an \$83.0 million federal tax payment for 2005 that had been deferred until February 2006 as a result of an Internal Revenue Service notice issued in response to Hurricane Katrina, and because of payments made during the nine months ended September 30, 2006 for capital and other expenditures incurred in 2005.

We believe that the presentation of free cash flow provides useful information regarding our recurring cash provided by operating activities after expenditures for property and equipment, net of proceeds from sales of property and equipment. It also demonstrates our ability to execute our financial strategy which includes reinvesting in existing capital assets to ensure a high level of customer service, investing in capital assets to facilitate growth in our customer base and services provided, pursuing strategic acquisitions that augment our existing business platform, repurchasing shares of common stock at prices that provide value to our shareholders, paying cash dividends, maintaining our investment grade rating and minimizing debt. In addition, free cash flow is a key metric used to determine compensation. The presentation of free cash flow has material limitations. Free cash flow does not represent our cash flow available for discretionary expenditures because it excludes certain expenditures that are required or that we have committed to such as debt service requirements and dividend payments. Our definition of free cash flow may not be comparable to similarly titled measures presented by other companies.

**Seasonality**

Our operations can be adversely affected by periods of inclement weather which could increase the volume of waste collected under existing contracts (without corresponding compensation), delay the collection and disposal of waste, reduce the volume of waste delivered to our disposal sites, or delay the construction or expansion of our landfill sites and other facilities.

**New Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The Interpretation applies to all tax positions within the scope of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and applies a more likely than not threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. The Interpretation is mandatory for years beginning after December 15, 2006; accordingly, we will adopt the Interpretation effective January 1, 2007. The cumulative effect of adopting the Interpretation will be recorded in retained earnings and other accounts as applicable. We are currently in the process of evaluating the effects of this new accounting standard. The impact of the Interpretation on our financial statements is not currently known or reasonably estimable.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and

expands disclosures about fair value measurements. SFAS 157 will be effective for our company beginning January 1, 2008. We are currently in the process of assessing the provisions of SFAS 157 and determining how this framework for measuring fair value will affect our current accounting policies and procedures and our financial statements. We have not determined whether the adoption of SFAS 157 will have a material impact on our consolidated financial statements.

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**Disclosure Regarding Forward-Looking Statements**

Certain statements and information included herein constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied in or by such forward-looking statements. Such factors include, among other things:

whether our estimates and assumptions concerning our selected balance sheet accounts, final capping, closure, post-closure and remediation costs, available airspace, and projected costs and expenses related to our landfills and property and equipment, and labor, fuel rates and economic and inflationary trends, turn out to be correct or appropriate;

various factors that will impact our actual business and financial performance such as competition and demand for services in the solid waste industry;

our ability to manage growth;

compliance with, and future changes in, environmental regulations;

our ability to obtain approvals in connection with expansions at our landfills;

our ability to obtain financing on acceptable terms to finance our operations and growth strategy and for our company to operate within the limitations imposed by financing arrangements;

our ability to repurchase common stock at prices that are accretive to earnings per share;

our dependence on key personnel;

general economic and market conditions including, but not limited to, inflation and changes in commodity pricing, fuel, labor, risk and health insurance, and other variable costs that are generally not within our control;

dependence on large, long-term collection, transfer and disposal contracts;

dependence on acquisitions for growth;

risks associated with undisclosed liabilities of acquired businesses;

risks associated with pending legal proceedings; and

other factors contained in our filings with the Securities and Exchange Commission.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market-sensitive financial instruments consist primarily of variable rate debt and interest rate swaps. Therefore, our major market risk exposure is changing interest rates in the United States and fluctuations in LIBOR. We manage interest rate risk through a combination of fixed and floating rate debt as well as interest rate swap agreements.

**ITEM 4. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), were effective as of the end of the period covered by this Quarterly Report.

Based on an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during our last fiscal quarter, identified in connection with that evaluation, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1A. RISK FACTORS**

There were no material changes during the third quarter 2006 in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

<b>Period</b>	<b>(a) Total Number of Shares or Units Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)</b>
Month #1 (July 1, July 31, 2006)	1,526,500	\$ 39.80	1,526,500	\$ 104.6
Month #2 (August 1, August 31, 2006)	625,000	38.79	625,000	80.3
Month #3 (September 1, September 30, 2006)	179,084	38.10	179,084	73.5
Total	2,330,584	\$ 39.40	2,330,584	\$ 73.5

The share purchases reflected in the table above were made pursuant to our \$275.0 million repurchase program approved by our board of directors in January 2006. In October 2006, the Company's board of directors authorized the repurchase of up to an additional \$250.0 million of our common stock. These share repurchase programs do not have expiration dates. No share repurchase program approved by our board of directors has ever expired nor do we expect to terminate any program prior to completion. We intend to make additional share purchases under our existing and new repurchase programs up to an aggregate of \$323.5 million.

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**ITEM 6. EXHIBITS**

Exhibit Number	Description of Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith)
32.1	Section 1350 Certification of Chief Executive Officer (filed herewith)
32.2	Section 1350 Certification of Chief Financial Officer (filed herewith)

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**SIGNATURES**

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

REPUBLIC SERVICES, INC.

By: /s/ TOD C. HOLMES  
Tod C. Holmes  
Senior Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

By: /s/ CHARLES F. SERIANNI  
Charles F. Serianni  
Vice President and Chief Accounting  
Officer  
(Principal Accounting Officer)

Date: November 7, 2006