

REPUBLIC SERVICES INC

Form 10-Q

August 03, 2007

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

(Mark One)

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

**For the quarterly period ended June 30, 2007**

**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 July 31, 2007, the registrant had outstanding 188,893,302 shares of Common Stock, par value \$.01 per share.

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

	<b>June 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25.9	\$ 29.1
Accounts receivable, less allowance for doubtful accounts of \$13.9 and \$18.8, respectively	312.3	293.8
Prepaid expenses and other current assets	59.3	60.5
Deferred tax assets	26.1	10.0
Total Current Assets	423.6	393.4
RESTRICTED CASH	129.4	153.3
PROPERTY AND EQUIPMENT, NET	2,135.5	2,163.8
GOODWILL, NET	1,560.8	1,562.9
INTANGIBLE ASSETS, NET	28.4	31.0
OTHER ASSETS	138.5	125.0
	\$ 4,416.2	\$ 4,429.4
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 122.8	\$ 161.5
Accrued liabilities	191.5	188.2
Deferred revenue	110.4	107.0
Notes payable and current maturities of long-term debt	2.3	2.6
Other current liabilities	145.2	142.9
Total Current Liabilities	572.2	602.2
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,496.0	1,544.6
ACCRUED LANDFILL AND ENVIRONMENTAL COSTS	286.6	260.7
DEFERRED INCOME TAXES AND OTHER LONG-TERM TAX LIABILITIES	466.9	419.7
OTHER LIABILITIES	206.1	180.1
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
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; 194,945,198 and 193,711,579 issued, including shares held in treasury, respectively	1.9	1.9
Additional paid-in capital	15.9	1,617.5

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Retained earnings	1,486.6	1,602.6
Treasury stock, at cost (4,027,542 and 0 shares, respectively)	(120.6)	(1,800.8)
Accumulated other comprehensive income, net of tax	4.6	.9
Total Stockholders' Equity	1,388.4	1,422.1
	\$ 4,416.2	\$ 4,429.4

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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
REVENUE	\$ 808.4	\$ 779.8	\$ 1,574.0	\$ 1,517.3
EXPENSES:				
Cost of operations	496.3	492.5	983.0	948.9
Depreciation, amortization and depletion	76.9	74.4	155.9	147.5
Accretion	4.2	3.8	8.3	7.6
Selling, general and administrative	77.9	75.1	159.0	156.9
OPERATING INCOME	153.1	134.0	267.8	256.4
INTEREST EXPENSE	(23.2)	(24.3)	(47.2)	(46.4)
INTEREST INCOME	3.1	3.8	6.4	7.1
OTHER INCOME (EXPENSE), NET	.7	.7	1.1	1.3
INCOME BEFORE INCOME TAXES	133.7	114.2	228.1	218.4
PROVISION FOR INCOME TAXES	46.5	43.4	87.0	83.0
NET INCOME	\$ 87.2	\$ 70.8	\$ 141.1	\$ 135.4
BASIC EARNINGS PER SHARE	\$ .45	\$ .35	\$ .73	\$ .67
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	192.7	199.6	193.2	200.9
DILUTED EARNINGS PER SHARE	\$ .45	\$ .35	\$ .72	\$ .66
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	194.6	202.2	195.1	203.7
CASH DIVIDENDS PER COMMON SHARE	\$ .1067	\$ .0933	\$ .2134	\$ .1866

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)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated		
	Shares, Net	Par Value			Treasury Stock	Other Comprehensive Income	Comprehensive Income
BALANCE AT DECEMBER 31, 2006	194.5	\$ 1.9	\$ 1,617.5	\$ 1,602.6	\$ (1,800.8)	\$ .9	
Net income				141.1			\$ 141.1
Adoption of FIN 48				(5.6)			
Stock split			(1,635.0)	(210.3)	1,845.3		
Cash dividends declared				(41.2)			
Issuances of common stock	1.1		27.6				
Issuances of restricted stock and deferred stock units	.1						
Compensation expense for restricted stock and deferred stock units			2.8				
Compensation expense for stock options			3.0				
Purchases of common stock for treasury	(4.8)				(165.1)		
Changes in value of derivative instruments, net of tax						3.7	3.7
Total comprehensive income							\$ 144.8
BALANCE AT JUNE 30, 2007	190.9	\$ 1.9	\$ 15.9	\$ 1,486.6	\$ (120.6)	\$ 4.6	

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>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 141.1	\$ 135.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	94.2	89.3
Landfill depletion and amortization	58.4	54.7
Amortization of intangible and other assets	3.3	3.5
Accretion	8.3	7.6
Stock option compensation expense	3.0	2.2
Restricted stock and deferred stock unit compensation expense	2.8	3.5
Deferred tax provision	4.6	.4
Provision for doubtful accounts, net of adjustments	(1.6)	4.5
Income tax benefit from stock option exercises	5.5	9.1
(Gains) losses, net on sales of businesses	(.8)	(.9)
Other non-cash items	1.6	1.2
Changes in assets and liabilities, net of effects from business acquisitions and dispositions:		
Accounts receivable	(17.7)	(26.1)
Prepaid expenses and other assets	(8.3)	(5.9)
Accounts payable and accrued liabilities	(33.4)	(59.5)
Federal income taxes payable	13.6	(88.3)
Other liabilities	35.1	16.1
	309.7	146.8
<b>CASH USED IN INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(113.1)	(178.2)
Proceeds from sales of property and equipment	2.7	8.6
Cash used in business acquisitions, net of cash acquired		(3.3)
Cash proceeds from business dispositions, net of cash disposed	4.9	3.8
Change in amounts due and contingent payments to former owners		(.3)
Change in restricted cash	23.9	22.8
	(81.6)	(146.6)
<b>CASH USED IN FINANCING ACTIVITIES:</b>		
Proceeds from notes payable and long-term debt	105.0	270.0
Payments of notes payable and long-term debt	(151.7)	(76.7)
Issuances of common stock	19.3	59.3
Excess income tax benefit from stock option exercises	2.8	10.6
Purchases of common stock for treasury	(165.1)	(325.8)



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Cash dividends paid	(41.6)	(38.7)
	(231.3)	(101.3)
DECREASE IN CASH AND CASH EQUIVALENTS	(3.2)	(101.1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29.1	131.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 25.9	\$ 30.7

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 U.S. generally accepted accounting principles 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 Annual Report on Form 10-K for the year ended December 31, 2006.

The Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles 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 and deferred tax assets, liabilities for potential litigation, claims and assessments, and liabilities for environmental remediation, deferred taxes, uncertain tax positions and self-insurance.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, effective January 1, 2007. As a result of adopting the provisions of FIN 48, the Company recorded a \$5.6 million cumulative adjustment to decrease beginning retained earnings in the first quarter of 2007. In accordance with the transition requirements of FIN 48, results of prior periods have not been restated. (For further information, see Note 7, Income Taxes.)

The following table summarizes the balance sheet impact of adopting FIN 48 as of January 1, 2007:

	<b>Balance as of December 31, 2006</b>	<b>Change</b>	<b>Balance as of January 1, 2007</b>
Assets:			
Deferred tax assets	\$ 10.0	\$ 16.0	\$ 26.0
Liabilities:			
Other current liabilities	142.9	(25.8)	117.1
Deferred income taxes and other long-term tax liabilities	419.7	47.4	467.1
Stockholders' Equity:			
Retained earnings	1,602.6	(5.6)	1,597.0

In January 2007, the Company's Board of Directors approved a 3-for-2 stock split in the form of a stock dividend, effective on March 16, 2007, to stockholders of record as of March 5, 2007. The Company's shares, per share data and

weighted average common and common equivalent shares outstanding have been retroactively adjusted for all periods to reflect the stock split.

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In the second quarter of 2007, the Company recorded a \$4.3 million reduction to its allowance for doubtful accounts as a result of the Company refining its estimate of its allowance for doubtful accounts based on its historical collection experience.

**New Accounting Pronouncements**

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.

In February 2007, the Financial Accounting Standards Board issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ), which permits companies to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for the Company beginning January 1, 2008. At the effective date, a company may elect the fair value option for eligible items that exist at that date. The company shall report the effect of the first remeasurement to fair value as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this statement is initially applied. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company does not believe that SFAS 159 will have a material impact on its Consolidated Financial Statements.

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

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

A summary of landfill and environmental liabilities is as follows:

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Landfill final capping, closure and post-closure liabilities	\$ 276.8	\$ 257.6
Remediation	50.5	45.1
	327.3	302.7
Less: Current portion (included in other current liabilities)	(40.7)	(42.0)
Long-term portion	\$ 286.6	\$ 260.7

**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 on 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 costs, timing of payments, available airspace, inflation and applicable regulations. Changes in available airspace include changes in engineering estimates, changes in design and changes due to the addition of airspace lying in probable expansion areas.

**Total Available Disposal Capacity**

As of June 30, 2007, the Company owned or operated 58 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.

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### **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.

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 its 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 assets, the purchase price assigned to the landfill is determined based on 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 on 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.

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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 on 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 as needed throughout the operating life of a landfill. 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.

Estimates of future expenditures for final capping, closure and post-closure are developed at least annually by engineers. These estimates are reviewed by management 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 certain cases, these adjustments affect amortization expense and accumulated amortization as well.

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 operating 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 generally occur 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 on the



consumption of cubic yards of available airspace covered by the capping event.

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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 on 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.

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 6.4% and 6.1% for the six months ended June 30, 2007 and 2006, respectively, based on 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 six months ended June 30, 2007, the Company reviewed its landfill retirement obligations for certain of its landfills and recorded an increase of \$5.0 million in amortization expense. The Company intends to conduct annual reviews of its landfill asset retirement obligations during the fourth quarter of each year.

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The following table summarizes the activity in the Company's asset retirement obligation liabilities for the six months ended June 30, 2007 and 2006:

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Asset retirement obligation liability, beginning of year	\$ 257.6	\$ 239.5
Non-cash asset additions	9.7	11.6
Revisions in estimates of future cash flows	5.6	
Amounts settled during the period	(4.4)	(2.0)
Accretion expense	8.3	7.6
Asset retirement obligation liability, end of period	276.8	256.7
Less: Current portion (included in other current liabilities)	(24.6)	(25.0)
Long-term portion	\$ 252.2	\$ 231.7

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was \$9.7 million at June 30, 2007 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 work to be performed under approved remediation action plans. 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 increase in the estimated costs for remediation could have a material adverse effect on the Company's financial position, results of operations or cash flows.

During the three months ended March 31, 2007, the Company recorded a pre-tax charge of \$22.0 million, of which \$19.9 million was recorded for remediation costs related to costs to comply with Final Findings and Orders ( F&Os ) issued by the Ohio Environmental Protection Agency in response to environmental conditions at the Company's Countywide Recycling and Disposal Facility in East Sparta, Ohio ( Countywide ). The remaining \$2.1 million of the pre-tax charge consists of landfill amortization expense 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. It is reasonably possible that the Company may need to adjust the charge in future periods to reflect the effects of new or additional information, to the extent that such information impacts the costs, timing or duration of the required actions. While the Company intends to vigorously pursue financial contribution from third parties for its costs to comply with the F&Os, the Company has not recorded any receivables for potential recoveries.

No other significant amounts were charged to income for remediation costs during the six months ended June 30, 2007 and 2006.

**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.

**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

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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.

Landfill development costs are stated at cost and are amortized or depleted based on consumed airspace. Landfill development costs include direct costs incurred to obtain landfill permits and direct costs incurred to acquire, construct and develop sites, and as final capping, closure and post-closure assets accrued in accordance with SFAS 143. 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 on the Company's weighted average cost of indebtedness. Interest capitalized was \$1.3 million and \$.9 million for the six months ended June 30, 2007 and 2006, respectively.

A summary of property and equipment is as follows:

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Other land	\$ 107.0	\$ 105.9
Non-depletable landfill land	52.7	52.7
Landfill development costs	1,759.2	1,722.2
Vehicles and equipment	1,928.9	1,886.8
Buildings and improvements	310.6	307.5
Construction-in-progress landfill	69.5	61.1
Construction-in-progress other	14.4	12.3
	4,242.3	4,148.5
Less: Accumulated depreciation, depletion and amortization		
Landfill development costs	(989.0)	(930.6)
Vehicles and equipment	(1,021.2)	(963.5)
Buildings and improvements	(96.6)	(90.6)
	(2,106.8)	(1,984.7)
Property and equipment, net	\$ 2,135.5	\$ 2,163.8

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,

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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.

**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 six months ended June 30, 2006. The aggregate purchase price paid for these transactions was \$3.3 million.

**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 generally amortized over periods ranging from 6 to 10 years.

The following table summarizes the activity in the intangible asset and the related accumulated amortization accounts for the six months ended June 30, 2007 and 2006:

	<b>Gross Intangible Assets</b>		
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2006	\$ 1,704.6	\$ 66.6	\$ 1,771.2
Acquisitions	(.1)		(.1)
Divestitures	(2.1)		(2.1)
Balance, June 30, 2007	\$ 1,702.4	\$ 66.6	\$ 1,769.0

**Accumulated Amortization**

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	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2006	\$ (141.7)	\$ (35.6)	\$ (177.3)
Amortization expense		(2.6)	(2.6)
Divestitures	.1		.1
Balance, June 30, 2007	\$ (141.6)	\$ (38.2)	\$ (179.8)



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	<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	.4		.4
Divestitures	(.8)		(.8)
Other additions		.1	.1
Balance, June 30, 2006	\$ 1,705.2	\$ 56.9	\$ 1,762.1

	<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		(2.9)	(2.9)
Divestitures	.1		.1
Balance, June 30, 2006	\$ (141.7)	\$ (32.7)	\$ (174.4)

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 did not record an impairment charge as a result of its goodwill impairment test in 2006. However, there can be no assurance that goodwill will not be impaired at any time in the future.

**Table of Contents****6. DEBT**

Notes payable and long-term debt are as follows:

	<b>June 30, 2007</b>	<b>December 31, 2006</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 \$1.3 million and \$1.4 million, and including \$8.4 million and \$6.0 million of adjustments to fair market value related to the interest rate swap as of June 30, 2007 and December 31, 2006, respectively; interest payable semi-annually in February and August at 6.75%; principal due at maturity in 2011	440.3	442.6
\$275.7 million unsecured notes, net of unamortized discount of \$0.2 million and including unamortized premium of \$27.0 million and \$27.1 million as of June 30, 2007 and December 31, 2006, respectively; interest payable semi-annually in March and September at 6.086%; principal due at maturity in 2035	248.5	248.4
\$1.0 billion unsecured revolving credit facility; interest payable using LIBOR-based rates; maturing in 2012		45.0
Tax-exempt bonds and other tax-exempt financing; fixed and floating interest rates based on prevailing market rates; maturities ranging from 2012 to 2037	673.4	674.2
Other debt; unsecured and secured by real property, equipment and other assets	36.8	37.7
	1,498.3	1,547.2
Less: Current portion	(2.3)	(2.6)
Long-term portion	\$ 1,496.0	\$ 1,544.6

As of June 30, 2007, the Company had \$430.3 million of letters of credit outstanding under its \$1.0 billion unsecured revolving credit facility, leaving \$569.7 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 June 30, 2007, the Company was in compliance with the financial covenants under these agreements.

Approximately two-thirds of the Company's tax-exempt bonds and other tax-exempt financings are remarketed weekly by a remarketing agent to effectively maintain a variable yield. If the remarketing agent is unable to remarket the bonds, then the bonds can be put back to the Company. These bonds have been classified as long-term because they are supported by letters of credit issued under the Company's long-term revolving line of credit or due to the Company's ability and intent to refinance these bonds using availability under its revolving line of credit, if necessary.

As of June 30, 2007, the Company had \$129.4 million of restricted cash, of which \$40.4 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 a financial guarantee of the Company's performance.

Interest paid was approximately \$48.0 million (net of capitalized interest of \$1.3 million) and \$46.2 million (net of capitalized interest of \$.9 million) for the six months ended June 30, 2007 and 2006, respectively.

Other debt includes a \$35.8 million capital lease liability as of June 30, 2007 related to a landfill.

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 outstanding swap agreements have a total notional value of \$210.0 million and mature in August 2011. This maturity is identical to the Company's public notes that were sold in 2001. Under the swap agreements, the Company pays interest at floating rates based on changes in LIBOR and receives interest at fixed rates of 6.75%. The Company has designated these agreements as hedges in changes in the fair value of the Company's hedged fixed-rate debt and accounts for

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them in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ). The Company has determined that these agreements qualify for the short-cut method under SFAS 133 and, therefore, changes in the fair value of the agreements 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 June 30, 2007, the interest rate swap agreements are reflected at a fair market value of \$8.4 million and are included in other liabilities and as an adjustment to long-term debt in the accompanying Unaudited Condensed Consolidated Balance Sheets. During the six months ended June 30, 2007 and 2006, the Company recorded net interest expense of \$1.1 million and \$1.0 million, respectively, related to its interest rate swap agreements 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 six months ended June 30, 2007 and 2006 based on the Company's anticipated annual effective income tax rate. During the three months ended March 31, 2007, we recorded a charge of \$4.2 million in our provision for income taxes related to the resolution of various income tax matters. During the three months ended June 30, 2007, we recorded a benefit of \$5.0 million in our provision for income taxes related to the resolution of various tax matters, which effectively closes the Internal Revenue Service's audits of our consolidated tax returns for fiscal years 2001 through 2004. Income taxes paid (net of refunds received) were \$52.5 million and \$149.5 million for the six months ended June 30, 2007 and 2006, respectively. Approximately \$83.0 million of income taxes paid during the six months ended June 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.

In July 2006, the FASB issued FIN 48 which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and transition, and requires expanded disclosure with respect to the uncertainty in income taxes. The Company adopted the provisions of FIN 48 effective January 1, 2007. The cumulative effect of the adoption of the recognition and measurement provisions of FIN 48 resulted in a \$5.6 million reduction to the January 1, 2007 balance of retained earnings.

As of January 1, 2007, the Company had approximately \$56.4 million of total gross unrecognized tax benefits. Of this total, approximately \$7.6 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits as of January 1, 2007 that, if recognized, would affect the effective income tax rate in any future periods.

The Company's policy for interest and penalties under FIN 48 related to income tax exposures was not impacted as a result of the adoption and measurement provisions of FIN 48. The Company continues to recognize interest and penalties as incurred within the provision for income taxes in the Consolidated Statements of Income. The Company has recorded a liability of \$12.4 million for interest and penalties, which is included as a component of the liabilities for uncertain tax positions, at January 1, 2007. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

To date in 2007, the Internal Revenue Service has proposed, and management has agreed to, certain adjustments related to tax returns under examination that will not have a material impact on the Company's financial position or results of operations. Gross unrecognized tax benefits for the examinations in progress were \$23.4 million as of January 1, 2007, \$10.3 million of which we expected to settle within the following twelve months. During the first quarter of 2007, the Company increased gross unrecognized tax benefits by \$12.0 million as a result of the resolution of various income tax matters. During the second quarter of 2007, the Company decreased gross unrecognized tax benefits by \$30.7 million for the effective settlement of the Internal Revenue Service's audits of the Company's consolidated tax returns for fiscal years 2001 through 2004. The unrecognized tax benefits that, if recognized, would affect the effective tax rate in future periods were reduced by \$3.6 million due to the Internal Revenue Service settlement. The Company also reduced its January 1, 2007 liability for interest and penalties by \$10.6 million as a result of the Internal Revenue Service settlement.

The Company and its subsidiaries are subject to U.S. federal income tax as well as to income tax in multiple state jurisdictions. The Company has effectively settled all U.S. federal income tax matters for years through 2004. All significant state and local income tax matters have been effectively settled for years through 2000. All years subsequent to these closed periods remain open and subject to examination in the previously mentioned jurisdictions.

**Table of Contents****8. EMPLOYEE BENEFIT PLANS**

In July 1998, the Company adopted the 1998 Stock Incentive Plan ( 1998 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 1998 Plan. The Company believes that such awards better align the interests of its employees with those of its stockholders. As of June 30, 2007, there were 3.5 million shares reserved for future grants under the 1998 Plan.

The 1998 Plan expires on June 30, 2008. In February 2007, the Company's Board of Directors approved the 2007 Stock Incentive Plan ( 2007 Plan ) to replace the 1998 Plan when it expires. The 2007 Plan was ratified by the Company's stockholders in May 2007. Shares reserved for future grants under the 2007 Plan are 10.5 million.

Options granted under the 1998 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.

A summary of stock option activity for the six months ended June 30, 2007 is as follows:

	<b>Stock Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 31, 2006	8.6	\$ 16.76
Granted	1.3	29.31
Exercised (a)	(1.4)	13.30
Outstanding at June 30, 2007	8.5	\$ 19.26
Exercisable at June 30, 2007 (b)	6.2	\$ 16.01

- (a) The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2007 was \$21.8 million.
- (b) Stock options exercisable as of June 30, 2007 have a weighted-average contractual term remaining of 5.4 years and an aggregate intrinsic value of \$90.3 million based on the

market value of  
the Company's  
common stock as  
of June 30, 2007.

As a result of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), effective January 1, 2006, the Company recorded \$3.0 million and \$2.2 million of equity-based compensation expense for stock options during the six months ended June 30, 2007 and 2006, respectively. 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 under SFAS 123(R) for these options.

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 \$2.8 million and \$10.6 million of its excess tax benefits as cash flows from financing activities for the six months ended June 30, 2007 and 2006, respectively. All other tax benefits related to stock options have been presented as a component of cash flows from operating activities.

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The Company uses a lattice binomial option-pricing model to value its stock option grants. 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. The weighted-average estimated fair values of stock options granted during the six months ended June 30, 2007 and 2006 was \$6.49 and \$6.23 per option, respectively, which were calculated using the following weighted-average assumptions:

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Expected volatility	23.5%	26.7%
Risk-free interest rate	4.8%	4.6%
Dividend yield	1.5%	1.4%
	4.0	
Expected life	years	4.2 years
Contractual life	7 years	7 years
Estimated forfeiture rate	5.0%	5.0%

Expected volatilities are based on the Company's historical stock prices over the contractual terms of the options and other factors. The risk-free interest rates used are based on the published U.S. Treasury yield curve in effect at the time of the grant for instruments with a similar life. The dividend yield reflects the Company's dividend yield at the date of grant. The expected life represents the period that the stock options are expected to be outstanding, taking into consideration the contractual terms of the options and the Company's employees' historical exercise and post-vesting employment termination behavior, weighted to reflect the job level demographic profile of the employees receiving the option grants. The estimated forfeiture rate is based on historical forfeitures and is adjusted periodically based on actual results.

As of June 30, 2007, total unrecognized compensation expense for outstanding stock options was \$9.0 million, which will be recognized over a weighted average period of 2.1 years.

During each of the six month periods ended June 30, 2007 and 2006, the Company awarded 36,000 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 six months ended June 30, 2007 and 2006, the Company awarded 186,000 and 127,500 shares of restricted stock, respectively, to its executive officers. 21,000 and 19,500 of the shares awarded during 2007 and 2006, respectively, vest effective January 1 of the subsequent year. 135,000 and 108,000 of the 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. The remaining shares awarded during 2007 vest effective December 31, 2008. 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.

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 six months ended June 30, 2007 and 2006, compensation expense related to stock units and restricted stock of \$2.8 million and \$3.5 million, respectively, was recorded in the Company's Unaudited Condensed Consolidated Statements of Income. The compensation expense for restricted stock recorded during the six months ended June 30, 2006 includes \$1.6 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).



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A summary of deferred stock unit and restricted stock activity for the six months ended June 30, 2007 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 December 31, 2006	289.0	\$ 23.42
Granted	236.4	29.31
Vested and issued	(127.5)	23.71
Unissued at June 30, 2007	397.9	\$ 26.82
Vested and unissued at June 30, 2007	108.4	\$ 21.83

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

From 2000 through June 30, 2007, the Board of Directors authorized the repurchase of up to \$2,050.0 million of the Company's common stock. As of June 30, 2007, the Company had paid \$1,965.9 million to repurchase 68.5 million shares of its common stock of which 4.8 million shares were acquired during the six months ended June 30, 2007 for \$165.1 million. During July 2007, the Board of Directors authorized the repurchase of up to an additional \$250.0 million of the Company's common stock.

In January 2007, the Company's Board of Directors approved a 3-for-2 stock split in the form of a stock dividend, effective on March 16, 2007, to stockholders of record as of March 5, 2007. The Company distributed 64.5 million shares from treasury stock to effect the stock split. In connection therewith, the Company transferred \$1.6 billion from treasury stock to additional paid-in capital and \$.2 billion from treasury stock to retained earnings, representing in total the weighted average cost of the treasury shares distributed.

In July 2003, the Company announced that its Board of Directors initiated a quarterly cash dividend of \$.04 per share. The dividend was increased to \$.08 per share in the third quarter of 2004, to \$.0933 per share in the third quarter of 2005, to \$.1067 per share in the third quarter of 2006 and to \$.17 per share in the third quarter of 2007. In April 2007, the Company paid a cash dividend of \$20.7 million to stockholders of record as of April 2, 2007. As of June 30, 2007, the Company recorded a dividend payable of \$20.5 million to stockholders of record at the close of business on July 2, 2007. In July 2007, the Company's Board of Directors declared a regular quarterly dividend of \$.17 per share payable to stockholders of record as of October 1, 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 six months ended June 30, 2007 and 2006 is calculated as follows (in thousands, except per share data):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Numerator:				
Net income	\$ 87,200	\$ 70,800	\$ 141,100	\$ 135,400
Denominator:				
Denominator for basic earnings per share	192,717	199,562	193,188	200,852
Effect of dilutive securities				
Options to purchase common stock	1,863	2,621	1,920	2,793
Unvested restricted stock awards	1	3	1	5
Denominator for diluted earnings per share	194,581	202,186	195,109	203,650
Basic earnings per share	\$ .45	\$ .35	\$ .73	\$ .67
Diluted earnings per share	\$ .45	\$ .35	\$ .72	\$ .66
Antidilutive securities not included in the diluted earnings per share calculation:				
Options to purchase common stock	1,381	1,365	1,390	1,377
Weighted-average exercise price	\$ 29.30	\$ 26.00	\$ 29.28	\$ 26.00

**10. OTHER COMPREHENSIVE INCOME**

During January 2007, 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 commence on January 1, 2008 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2010. In accordance with SFAS 133, \$2.6 million representing the effective portion of the change in fair value as of June 30, 2007, 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 six months ended June 30, 2007.

During September 2006, 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 October 2, 2006 and settle each month in equal notional amounts of 500,000 gallons through December 31, 2007. In accordance with SFAS 133, \$.2 million representing the effective portion of the change in fair value as of June 30, 2007, 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 six months ended June 30, 2007. Realized losses of \$1.4 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the six months ended June 30, 2007.

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 settled each month in equal notional amounts of 500,000 gallons through December 31, 2006. In accordance with SFAS 133, \$.3 million representing the effective portion of the change in fair value as of June 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 \$.4 million related to these option agreements are included in cost of operations in the Company's Unaudited Condensed Consolidated Statements of Income for the six months ended June 30, 2006.

**Table of Contents****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 six months ended June 30 is shown in the following table:

	<b>Gross</b>	<b>Intercompany</b>	<b>Net</b>	<b>Depreciation, Amortization, Operating Depletion and</b>	<b>Income</b>	<b>Capital</b>	<b>Total</b>
	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Accretion</b>	<b>(Loss)(d)</b>	<b>Expenditures</b>	<b>Assets</b>
<b>2007</b>		<b>(b)</b>					
Eastern Region (c)							
(d)	\$ 334.0	\$ (48.5)	\$ 285.5	\$ 27.1	\$ 34.2	\$ 12.1	\$ 872.2
Central Region	404.8	(87.5)	317.3	44.2	54.8	24.8	1,116.6
Southern Region	459.1	(47.4)	411.7	36.1	89.4	39.7	903.4
Southwestern							
Region	201.0	(24.2)	176.8	17.1	33.0	15.8	450.3
Western Region (c)	483.2	(100.8)	382.4	36.2	89.8	26.5	856.5
Corporate Entities							
(a)	.3		.3	3.5	(33.4)	(5.8)	217.2
Total	\$ 1,882.4	\$ (308.4)	\$ 1,574.0	\$ 164.2	\$ 267.8	\$ 113.1	\$ 4,416.2

	<b>Gross</b>	<b>Intercompany</b>	<b>Net</b>	<b>Depreciation, Amortization, Operating Depletion and</b>	<b>Income</b>	<b>Capital</b>	<b>Total</b>
	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Accretion</b>	<b>(Loss)</b>	<b>Expenditures</b>	<b>Assets</b>
<b>2006</b>		<b>(b)</b>					
Eastern Region	\$ 327.9	\$ (48.9)	\$ 279.0	\$ 22.0	\$ 50.3	\$ 17.7	\$ 884.3
Central Region	404.3	(90.3)	314.0	46.8	56.0	26.7	1,126.2
Southern Region	438.3	(44.8)	393.5	36.8	74.2	39.8	904.0
Southwestern							
Region	191.7	(21.7)	170.0	17.8	30.0	15.5	454.4
Western Region	451.6	(90.6)	361.0	28.9	79.9	35.9	838.8
Corporate Entities							
(a)	(.2)		(.2)	2.8	(34.0)	42.6	282.0
Total	\$ 1,813.6	\$ (296.3)	\$ 1,517.3	\$ 155.1	\$ 256.4	\$ 178.2	\$ 4,489.7

(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 net of inventory 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 an increase in amortization expense of \$5.0 million recorded during the six months ended June 30, 2007 related to changes in

estimates and assumptions concerning the cost and timing of future final capping, closure and post-closure activities for certain landfills in accordance with SFAS 143.

- (d) Operating income includes a charge of \$21.3 million recorded during the six months ended June 30, 2007 related to estimated costs to comply with Final Findings & Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at the Company's Countywide facility.

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Total revenue of the Company by revenue source for the three and six months ended June 30, 2007 and 2006 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (a)	2007	2006 (a)
Collection:				
Residential	\$ 201.6	\$ 188.4	\$ 397.4	\$ 371.9
Commercial	233.6	218.1	464.0	432.1
Industrial	166.8	167.6	322.5	325.2
Other	5.0	5.6	9.8	11.7
Total collection	607.0	579.7	1,193.7	1,140.9
Transfer and disposal	313.1	309.3	591.9	587.2
Less: Intercompany	(160.2)	(153.2)	(305.2)	(293.7)
Transfer and disposal, net	152.9	156.1	286.7	293.5
Other	48.5	44.0	93.6	82.9
Revenue	\$ 808.4	\$ 779.8	\$ 1,574.0	\$ 1,517.3

- (a) Certain amounts for 2006 have been reclassified to conform to the 2007 presentation.

**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 fifteen 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 June 30, 2007 (which includes claims for worker's compensation, general liability, vehicle liability and employee health care benefits) were \$173.6 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>June 30, 2007</b>	<b>December 31, 2006</b>
Letters of credit	\$ 661.2	\$ 638.4
Surety bonds	478.1	463.4

As of June 30, 2007, \$430.3 million of the above letters of credit were outstanding under the Company's revolving credit facility. Also, as of June 30, 2007, 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 other amounts held in trust as a financial guarantee of the Company's performance as follows:

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Restricted cash:		
Financing proceeds	\$ 40.4	\$ 65.6
Other	89.0	87.7
	\$ 129.4	\$ 153.3

**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, to provide for certain potential tax exposures, the Company maintains liabilities for uncertain tax positions for its estimate of the final outcome of the examinations. (For further information related to the Company's liabilities for uncertain tax positions, see Note 7, Income Taxes.)

Management believes that the liabilities for uncertain tax positions recorded are adequate. However, a significant assessment against the Company in excess of the liabilities recorded 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 Annual Report on Form 10-K for the year ended December 31, 2006.

**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 137 collection companies in 21 states. We also own or operate 95 transfer stations, 58 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 six months ended June 30, 2007 and 2006 (in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007		2006 (a)		2007		2006 (a)	
Collection:								
Residential	\$ 201.6	25.0%	\$ 188.4	24.1%	\$ 397.4	25.2%	\$ 371.9	24.5%
Commercial	233.6	28.9	218.1	28.0	464.0	29.5	432.1	28.5
Industrial	166.8	20.6	167.6	21.5	322.5	20.5	325.2	21.4
Other	5.0	.6	5.6	.7	9.8	.6	11.7	.8
Total collection	607.0	75.1	579.7	74.3	1,193.7	75.8	1,140.9	75.2
Transfer and disposal	313.1		309.3		591.9		587.2	
Less: Intercompany	(160.2)		(153.2)		(305.2)		(293.7)	
Transfer and disposal, net	152.9	18.9	156.1	20.0	286.7	18.2	293.5	19.3
Other	48.5	6.0	44.0	5.7	93.6	6.0	82.9	5.5
Revenue	\$ 808.4	100.0%	\$ 779.8	100.0%	\$ 1,574.0	100.0%	\$ 1,517.3	100.0%

(a) Certain amounts for 2006 have been reclassified to conform to the 2007 presentation.

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. It also includes capital costs for equipment and facilities. We seek operating efficiencies by controlling the movement of waste from the point of collection through disposal. During the three months ended June 30, 2007 and 2006, approximately 58% and 57%, respectively, 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

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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 on the consumption of cubic yards of available airspace. These costs include all costs to acquire and construct a site 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, timing of payments, available airspace, inflation and applicable regulations. Changes in available airspace include changes in engineering estimates, 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 six months ended June 30, 2007 and 2006 is shown in the following table:

		<b>Depreciation, Amortization, Depletion and Accretion Before</b>	<b>SFAS 143 Adjustments to Amortization Expense for Changes in Estimates and Assumptions</b>	<b>Depreciation, Amortization, Depletion and Accretion</b>	<b>Operating Income (Loss)</b>	<b>Operating Margin</b>
<b>2007</b>	<b>Net Revenue</b>	<b>SFAS 143 Adjustments</b>				
Eastern Region	\$ 285.5	\$ 25.0	\$ 2.1	\$ 27.1	\$ 34.2	12.0%
Central Region	317.3	44.2		44.2	54.8	17.3
Southern Region	411.7	36.1		36.1	89.4	21.7
Southwestern Region	176.8	17.1		17.1	33.0	18.7
Western Region	382.4	33.3	2.9	36.2	89.8	23.5
Corporate Entities	.3	3.5		3.5	(33.4)	
<b>Total</b>	<b>\$ 1,574.0</b>	<b>\$ 159.2</b>	<b>\$ 5.0</b>	<b>\$ 164.2</b>	<b>\$ 267.8</b>	<b>17.0</b>

		<b>Depreciation, Amortization, Depletion and Accretion</b>	<b>Operating Income (Loss)</b>	<b>Operating Margin</b>
<b>2006</b>	<b>Net Revenue</b>			
Eastern Region	\$ 279.0	\$ 22.0	\$ 50.3	18.0%
Central Region	314.0	46.8	56.0	17.8
Southern Region	393.5	36.8	74.2	18.9
Southwestern Region	170.0	17.8	30.0	17.6
Western Region	361.0	28.9	79.9	22.1

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Corporate Entities	(.2)	2.8	(34.0)	
Total	\$ 1,517.3	\$ 155.1	\$ 256.4	16.9

Our operations are managed and reviewed through five regions that we designate as our reportable segments. From 2006 to 2007, revenue increased in all of our regions due to the successful execution of our pricing strategy.

Revenue in our Eastern Region increased during 2007 compared to 2006 due to price increases in all lines of business and an increase in the price of commodities. This increase in revenue was partially offset by lower volumes in the industrial collection line of business, primarily due to less temporary work and lower landfill volumes. These lower volumes resulted from less favorable weather conditions and a general slowdown in residential construction during 2007.

Operating margins in the Eastern Region decreased because of a \$21.3 million increase in operating expenses and a \$2.1 million increase in SFAS 143 amortization expense associated with environmental conditions at our Countywide Recycling and Disposal Facility in East Sparta, Ohio. Excluding these expenses, operating

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margins increased from 18.0% in 2006 to 20.2% in 2007. This increase in operating margins is primarily due to higher revenue, lower disposal costs, and lower truck and equipment maintenance expense.

Revenue in our Central Region increased during 2007 compared to 2006 due to price increases in all lines of business. This increase in revenue was partially offset by lower volumes in all lines of business. Lower volumes in the collection lines of business are primarily due to less favorable weather conditions during 2007. Lower landfill volumes are primarily due to our decision to limit our acceptance of certain waste streams.

Operating margins in our Central Region decreased primarily due to increased third-party hauling costs associated with our company assuming responsibility for 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. Increases in risk insurance and landfill operating costs also lowered margins. These increases in costs were partially offset by lower disposal costs and lower truck and equipment maintenance costs.

In our Southern Region, price increases in all lines of business and increases in commercial collection, residential collection and landfill volumes resulted in an increase in revenue during 2007 compared to 2006. This increase in revenue was partially offset by lower industrial collection volumes, primarily due to less temporary work. These lower volumes are primarily due to a general slowdown in residential construction in 2007, and hurricane-related work that was performed during 2006.

Operating margins in our Southern Region increased primarily due to higher revenue, lower disposal costs due to drier weather, and lower truck and equipment maintenance costs. These improvements in operating margins were partially offset by higher insurance costs.

Our Southwestern Region benefited from price increases in all lines of business and volume increases in all collection lines of business. The increase in revenue during 2007 compared to 2006 resulting from these increases was partially offset by a decrease in landfill volumes. This decrease in landfill volumes is due to unfavorable weather conditions and lower special waste volumes during 2007.

The increase in operating margins in our Southwestern Region is primarily due to higher revenue, lower landfill depletion costs and lower selling, general and administrative costs. This increase in operating margins was partially offset by higher labor, truck maintenance and insurance costs.

In our Western Region, price increases in all lines of business, volume increases in all collection lines of business and an increase in commodity prices resulted in an increase in revenue during 2007 compared to 2006. This increase in revenue was partially offset by a decrease in landfill volumes resulting from a general slowdown in residential construction in 2007.

Operating margins in our Western Region increased primarily due to higher revenue, lower disposal costs and lower landfill operating costs. This increase in operating margins was partially offset by a \$2.9 million increase in SFAS 143 amortization expense.

**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 six months ended June 30, 2006. The aggregate purchase price we paid in these transactions was \$3.3 million in cash.

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



**Table of Contents****Consolidated Results of Operations**

Our net income was \$87.2 million, or \$.45 per diluted share, for the three months ended June 30, 2007, as compared to \$70.8 million, or \$.35 per diluted share, for the three months ended June 30, 2006. Our net income was \$141.1 million, or \$.72 per diluted share, for the six months ended June 30, 2007, as compared to \$135.4 million, or \$.66 per diluted share, for the six months ended June 30, 2006.

During the three months ended March 31, 2007, we recorded a charge of \$22.0 million (\$13.5 million, or approximately \$.07 per diluted share, net of tax) related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide Recycling and Disposal Facility in East Sparta, Ohio. This charge affected our Unaudited Condensed Consolidated Statement of Income as follows:

	<b>Three Months Ended March 31, 2007</b>	
Expenses:		
Cost of operations	\$	18.0
Depreciation, amortization and depletion		2.1
Selling, general and administrative		1.2
Operating income		(21.3)
Other income (expense), net		(.7)
Income before income taxes	\$	(22.0)

During the three months ended March 31, 2007, we recorded a charge of \$4.2 million, or approximately \$.02 per diluted share, in our provision for income taxes related to the resolution of various income tax matters. During the three months ended June 30, 2007, we recorded a benefit of \$5.0 million, or approximately \$.03 per diluted share, in our provision for income taxes related to the resolution of various tax matters, which effectively closes the Internal Revenue Service's audits of our consolidated tax returns for fiscal years 2001 through 2004.

The following table summarizes our costs and expenses for the three and six months ended June 30, 2007 and 2006 in millions of dollars and as a percentage of our revenue:

	<b>Three Months Ended June 30,</b>				<b>Six Months Ended June 30,</b>			
	<b>2007</b>		<b>2006</b>		<b>2007</b>		<b>2006</b>	
Revenue	\$ 808.4	100.0%	\$ 779.8	100.0%	\$ 1,574.0	100.0%	\$ 1,517.3	100.0%
Cost of operations	496.3	61.4	492.5	63.2	983.0	62.5	948.9	62.5
Depreciation, amortization and depletion of property and equipment	75.5	9.3	72.7	9.3	152.6	9.7	144.0	9.5
Amortization of intangible assets	1.4	.2	1.7	.2	3.3	.2	3.5	.2
Accretion	4.2	.5	3.8	.5	8.3	.5	7.6	.5
Selling, general and administrative expenses	77.9	9.7	75.1	9.6	159.0	10.1	156.9	10.4



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Operating income	\$ 153.1	18.9%	\$ 134.0	17.2%	\$ 267.8	17.0%	\$ 256.4	16.9%
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*Revenue.* Revenue was \$808.4 million and \$779.8 million for the three months ended June 30, 2007 and 2006, respectively, an increase of 3.7%. Revenue was \$1,574.0 million and \$1,517.3 million for the six months ended June 30, 2007 and 2006, respectively, an increase of 3.7%. The following table reflects the components of our revenue growth for the three and six months ended June 30, 2007 and 2006:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Core price	4.0%	3.3%	4.2%	3.2%
Fuel surcharges	.1	1.5	.1	1.4
Environmental fees	.3	.3	.4	.4
Recycling commodities	.8	(.2)	.8	(.4)
Total price	5.2	4.9	5.5	4.6
Core volume (a)	(.9)	3.7	(1.3)	4.3
Non-core volume	(.2)	(.1)	(.1)	
Total volume	(1.1)	3.6	(1.4)	4.3
Total internal growth	4.1	8.5	4.1	8.9
Acquisitions, net of divestitures	(.5)	(.1)	(.4)	(.3)
Taxes (b)	.1	.1		.1
Total revenue growth	3.7%	8.5%	3.7%	8.7%

(a) Core volume growth for the three and six months ended June 30, 2006 includes 1.1% and .6%, respectively, of growth 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. The impact of this contract on core volume growth for the three and six months ended June 30, 2007 is negligible.

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

During the six months ended June 30, 2007, 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 throughout 2007. During the six months ended June 30, 2007, we experienced lower core volume growth due primarily to less temporary work in our industrial collection line of business.

*Cost of Operations.* Cost of operations was \$496.3 million and \$983.0 million for the three and six months ended June 30, 2007, versus \$492.5 million and \$948.9 million for the comparable 2006 periods. Cost of operations as a percentage of revenue was 61.4% and 62.5% for the three and six months ended June 30, 2007, versus 63.2% and 62.5% for the comparable 2006 periods. The increase in cost of operations in aggregate dollars for the six months ended June 30, 2007 versus the comparable 2006 period is primarily a result of the charge we recorded related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.

The following table summarizes the major components of our cost of operations for the three and six months ended June 30, 2007 and 2006 in millions of dollars and as a percentage of our revenue:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007		2006		2007		2006	
Subcontractor, disposal and third-party fees	\$ 181.4	22.4%	\$ 188.1	24.1%	\$ 348.0	22.1%	\$ 355.0	23.4%
Labor and benefits	155.1	19.2	147.1	18.9	305.5	19.4	291.5	19.2
Maintenance and operating	117.4	14.5	115.8	14.9	244.1	15.5	222.8	14.7
Insurance and other	42.4	5.3	41.5	5.3	85.4	5.5	79.6	5.2
Total	\$ 496.3	61.4%	\$ 492.5	63.2%	\$ 983.0	62.5%	\$ 948.9	62.5%

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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 three and six months ended June 30, 2007 versus the comparable 2006 periods is primarily due to higher revenue resulting from improved pricing. Drier weather, particularly in the southeast, also resulted in lower disposal costs.

Labor and benefits include costs such as wages, salaries, payroll taxes and health benefits for our frontline service employees and their supervisors. Such expenses as a percentage of revenue for the three and six months ended June 30, 2007 versus the comparable 2006 periods increased due to increases in wages and benefits.

Maintenance and operating includes costs such as fuel, parts, shop labor and benefits, third-party repairs, and landfill monitoring and operating. The decrease in such expenses as a percentage of revenue for the three months ended June 30, 2007 versus the comparable 2006 period is due to lower fuel costs and higher revenue. The increase in such expenses as a percentage of revenue for the six months ended June 30, 2007 versus the comparable 2006 period is primarily due to an increase in landfill operating costs resulting from an \$18.0 million charge recorded during the six months ended June 30, 2007. This charge related to estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.

Insurance and other includes costs such as worker's compensation, auto and general liability insurance, property taxes, property maintenance and utilities. The increase in such expenses as a percentage of revenue for the six months ended June 30, 2007 versus the comparable 2006 period is primarily due to a slight increase in the severity of our automobile insurance claims.

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 \$75.5 million and \$152.6 for the three and six months ended June 30, 2007, versus \$72.7 million and \$144.0 million for the comparable 2006 periods. Depreciation, amortization and depletion of property and equipment as a percentage of revenue was 9.3% and 9.7% for the three and six months ended June 30, 2007, versus 9.3% and 9.5% for the comparable 2006 periods. The increase in such expenses in aggregate dollars and as a percentage of revenue for the six month periods presented is due to a \$2.9 million adjustment to landfill amortization expense associated with one of our facilities in California and a \$2.1 million adjustment to landfill amortization expense associated with our Countywide facility, both of which were recorded during the three months ended March 31, 2007. In addition, during the six months ended June 30, 2007, we incurred approximately \$1.6 million of additional depletion and amortization expense, and we expect to incur approximately \$1.7 million of additional depletion and amortization expense during the remainder of 2007, associated with a reduction of estimated remaining available airspace at our Countywide facility.

*Amortization of Intangible Assets.* Expenses for amortization of intangible and other assets were \$1.4 million and \$3.3 million for the three and six months ended June 30, 2007, versus \$1.7 million and \$3.5 million for the comparable 2006 periods. Amortization of intangible assets as a percentage of revenue was .2% for the three and six months ended June 30, 2007 and 2006.

*Accretion Expense.* Accretion expense was \$4.2 million and \$8.3 million for the three and six months ended June 30, 2007, versus \$3.8 million and \$7.6 million for the comparable 2006 periods. Accretion expense as a percentage of revenue was .5% for the three and six months ended June 30, 2007 and 2006. The increase in such expenses in aggregate dollars in 2007 is primarily due to an increase in asset retirement obligations.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$77.9 million and \$159.0 million for the three and six months ended June 30, 2007, versus \$75.1 million and \$156.9 million for the comparable 2006 periods. Selling, general and administrative expenses as a percentage of revenue were 9.7% and

10.1% for the three and six months ended June 30, 2007, versus 9.6% and 10.4% for the comparable 2006 periods. The increase in such expenses in aggregate dollars is due to the expansion of our business. The decrease in such expenses as a percentage of revenue for the six month periods presented is due primarily to a \$4.3 million reduction to our allowance for doubtful accounts recorded during the three months ended June 30, 2007 as a result of refining our estimate for our allowance based on our historical collection experience. During the three months ended June 30, 2007, this reduction to our allowance was offset by higher compensation expense. We believe selling, general and administrative costs as a percentage of revenue for the year ended December 31, 2007 will be approximately 10%.

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*Interest Expense.* We incurred interest expense primarily on our unsecured notes and tax-exempt bonds. Interest expense was \$23.2 million and \$47.2 million for the three and six months ended June 30, 2007, versus \$24.3 million and \$46.4 million for the comparable 2006 periods. The changes in interest expense during the three and six months ended June 30, 2007 versus the comparable 2006 periods are primarily due to changes in debt balances and short-term interest rates.

Capitalized interest was \$.7 million and \$1.3 million for the three and six months ended June 30, 2007, versus \$.6 million and \$.9 million for the comparable 2006 periods.

*Interest and Other Income (Expense), Net.* Interest and other income, net of other expense, was \$3.8 million and \$7.5 million for the three and six months ended June 30, 2007, versus \$4.5 million and \$8.4 million for the comparable 2006 periods.

*Income Taxes.* Our provision for income taxes was \$46.5 million and \$87.0 million for the three and six months ended June 30, 2007, versus \$43.4 million and \$83.0 million for the comparable 2006 periods. Our effective income tax rate was 34.8% and 38.1% for the three and six months ended June 30, 2007 versus 38.0% for the comparable 2006 periods. During the three months ended March 31, 2007, we recorded a \$4.2 million charge related to the resolution of various income tax matters. During the three months ended June 30, 2007, we recorded a \$5.0 million reduction to income taxes related to the resolution of various income tax matters, which effectively closes the Internal Revenue Service's audits of our consolidated tax returns for fiscal years 2001 through 2004. We believe that our effective income tax rate for the remainder of 2007 will be approximately 38.5%.

**Landfill and Environmental Matters***Available Airspace*

The following table reflects landfill airspace activity for landfills owned or operated by us for the six months ended June 30, 2007:

	Balances as of December 31, 2006	New Expansions Undertaken	Landfills No Longer Operated	Airspace Consumed	Changes in Design	Changes in Engineering Estimates	Balances as of June 30, 2007
Permitted airspace:							
Cubic yards (in millions)	1,597.2		(4.4)	(20.1)	(27.9)	6.9	1,551.7
Number of sites	59		(1)				58
Probable expansion airspace:							
Cubic yards (in millions)	124.6	74.4			(7.5)	.5	192.0
Number of sites	8	3					11
Total available airspace:							
Cubic yards (in millions)	1,721.8	74.4	(4.4)	(20.1)	(35.4)	7.4	1,743.7
Number of sites	59		(1)				58

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 2007, total available airspace increased by 21.9 million cubic yards primarily due to new expansions undertaken and changes in engineering estimates, partially offset by changes in design and airspace consumed. In addition, total available airspace was reduced during the six months ended June 30, 2007 as a result of not renewing a contract to operate a small landfill in Texas. Changes in design are primarily due to a reduction of estimated remaining available airspace at our Countywide facility.

As of June 30, 2007, we owned or operated 58 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 June 30, 2007, total available disposal capacity is estimated to be 1.5 billion in-place cubic yards of permitted airspace plus .2 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 all of our expansion criteria. See Note 2, Landfill and Environmental Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

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As of June 30, 2007, eleven of our landfills meet all of our criteria for including probable expansion airspace in their total available disposal capacity. At projected annual volumes, these eleven landfills have an estimated remaining average site life of 31 years, including probable expansion airspace. The average estimated remaining life of all of our landfills is 27 years. Probable expansion airspace represents 11.0% 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**

As of June 30, 2007, accrued final capping, closure and post-closure costs were \$276.8 million. The current portion of these costs of \$24.6 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in other current liabilities. The long-term portion of these costs of \$252.2 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in accrued landfill and environmental costs.

**Charge for Landfill Matter**

During the six months ended June 30, 2007, we recorded a charge of \$22.0 million related to costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility. We also recorded \$1.6 million of additional depletion and amortization expense associated with a reduction of estimated remaining available airspace at this landfill. In addition, we will incur approximately \$1.7 million of additional depletion and amortization expense during the remainder of 2007 associated with a reduction of estimated remaining available airspace at this landfill as a result of the OEPA's F&Os. While we intend to vigorously pursue financial contribution from third parties for our costs to comply with the F&Os, the Company has not recorded any receivables for potential recoveries.

**Investment in Landfills**

The following table reflects changes in our investment in landfills for the six months ended June 30, 2007 (in millions):

	Balance as of December 31, 2006	Capital Additions	Retire- ments	Retirement Obligations	Non-Cash Additions for Asset	SFAS 143 Adjustments to Amortization Expense	Additions Charged to Expense	Transfers And Other Adjustments	Balance as of June 30, 2007
Non-depletable landfill land	\$ 52.7	\$	\$	\$	\$	\$	\$	\$	\$ 52.7
Landfill development costs	1,722.2	.5		9.7		5.6		21.2	1,759.2
Construction in progress landfill	61.1	31.9						(23.5)	69.5
Accumulated depletion and amortization	(930.6)						(58.4)		(989.0)
Net investment in landfill land and development costs	\$ 905.4	\$ 32.4	\$	\$ 9.7	\$	\$ 5.6	\$ (58.4)	\$ (2.3)	\$ 892.4

The following table reflects our future expected investment in our landfills as of June 30, 2007 (in millions):



	<b>Balance as of June 30, 2007</b>	<b>Expected Future Investment</b>	<b>Total Expected Investment</b>
Non-depletable landfill land	\$ 52.7	\$	\$ 52.7
Landfill development costs	1,759.2	1,809.1	3,568.3
Construction in progress landfill	69.5		69.5
Accumulated depletion and amortization	(989.0)		(989.0)
Net investment in landfill land and development costs	\$ 892.4	\$ 1,809.1	\$ 2,701.5

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The following table reflects our net investment in our landfills, excluding non-depletable land, and our depletion, amortization and accretion expense for the six months ended June 30, 2007 and 2006:

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
Number of landfills owned or operated	58	59
Net investment, excluding non-depletable land (in millions)	\$ 839.7	\$ 855.6
Total estimated available disposal capacity (in millions of cubic yards)	1,743.7	1,743.1
Net investment per cubic yard	\$ .48	\$ .49
Landfill depletion and amortization expense (in millions)	\$ 58.4	\$ 54.7
Accretion expense (in millions)	8.3	7.6
	66.7	62.3
Airspace consumed (in millions of cubic yards)	20.1	22.2
Depletion, amortization and accretion expense per cubic yard of airspace consumed	\$ 3.32	\$ 2.81

The increase in depletion, amortization and accretion expense per cubic yard of airspace consumed from 2006 to 2007 is primarily due to a \$5.0 million increase in landfill amortization expense we recorded during the first quarter of 2007 related to a review of landfill asset retirement obligations at certain of our landfills. This increase is also partially due to \$1.6 million of additional depletion and amortization expense associated with a reduction of estimated remaining available airspace at our Countywide facility.

During the six months ended June 30, 2007 and 2006, our weighted average compaction rate was approximately 1,500 pounds per cubic yard based on our three-year historical moving average. Our compaction rates may improve as a result of the settlement and decomposition of waste.

As of June 30, 2007, we expect to spend an estimated additional \$1.8 billion on existing landfills, primarily related to cell construction and environmental structures, over their expected remaining lives. Our total expected investment, excluding non-depletable land, estimated to be \$2.6 billion, or \$1.52 per cubic yard, is used in determining our depletion and amortization expense based on 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 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 March 31, 2007, we recorded a pre-tax charge of \$22.0 million, of which \$19.9 million was for remediation costs to comply with the Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility.

**Financial Condition**

At June 30, 2007, we had \$25.9 million of cash and cash equivalents. We also had \$129.4 million of restricted cash deposits, including \$40.4 million of restricted cash held for capital expenditures under certain debt facilities.

In June 2005, we entered into a \$750.0 million unsecured revolving credit facility with a group of banks which expired in 2010. During April 2007, we increased our unsecured revolving credit facility to \$1.0 billion and extended the term to 2012. Borrowings under the credit facility bear interest at LIBOR-based rates. We use our operating cash flow and proceeds from our credit facility to finance our working capital, capital expenditures, acquisitions, share repurchases, dividends and other requirements. As of June 30, 2007, we had \$569.7 million available under our 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 June 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.

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

At June 30, 2007, we had \$673.4 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 and have maturities ranging from 2012 to 2037. As of June 30, 2007, we had \$40.4 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.

**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 six months ended June 30, 2007 (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, 2006	\$ 18.8	\$ 257.6	\$ 45.1	\$ 157.7
Non-cash asset additions		9.7		
Revisions in estimates of future cash flows recorded as non-cash asset additions		5.6		
Accretion expense		8.3		
Other additions charged to expense, net of adjustments	(1.6)		19.9	92.2
Payments or usage	(3.3)	(4.4)	(14.5)	(76.3)
Balance, June 30, 2007	13.9	276.8	50.5	173.6
Less: Current portion	(13.9)	(24.6)	(16.1)	(57.5)
Long-term portion	\$	\$ 252.2	\$ 34.4	\$ 116.1

During the three months ended June 30, 2007, we recorded a \$4.3 million reduction to our allowance for doubtful accounts as a result of refining our estimate for our allowance based on our historical collection experience. As of June 30, 2007, accounts receivable were \$312.3 million, net of allowance for doubtful accounts of \$13.9 million, resulting in days sales outstanding of 35, or 22 days net of deferred revenue. In addition, at June 30, 2007, our accounts receivable in excess of 90 days old totaled \$18.4 million, or 5.6% of gross receivables outstanding.

**Table of Contents****Property and Equipment**

The following tables reflect the activity in our property and equipment accounts for the six months ended June 30, 2007 (in millions):

	<b>Gross Property and Equipment</b>							<b>Balance as of June 30, 2007</b>
	<b>Balance as of December 31, 2006</b>	<b>Capital Additions</b>	<b>Retirements</b>	<b>Net of Divestitures</b>	<b>Non-Cash Additions for Asset Retirement Obligations</b>	<b>SFAS 143 Annual Adjustments</b>	<b>Transfers and Other Adjustments</b>	
Other land	\$ 105.9	\$ 1.0	\$	\$	\$	\$	\$ .1	\$ 107.0
Non-depletable landfill land	52.7							52.7
Landfill development costs	1,722.2	.5			9.7	5.6	21.2	1,759.2
Vehicles and equipment	1,886.8	74.1	(29.9)	(4.7)			2.6	1,928.9
Buildings and improvements	307.5						3.1	310.6
Construction in progress landfill	61.1	31.9					(23.5)	69.5
Construction in progress other	12.3	5.6					(3.5)	14.4
<b>Total</b>	<b>\$ 4,148.5</b>	<b>\$ 113.1</b>	<b>\$ (29.9)</b>	<b>\$ (4.7)</b>	<b>\$ 9.7</b>	<b>\$ 5.6</b>	<b>\$</b>	<b>\$ 4,242.3</b>

	<b>Accumulated Depreciation, Amortization and Depletion</b>						<b>Balance as of June 30, 2007</b>
	<b>Balance as of December 31, 2006</b>	<b>Additions Charged to Expense</b>	<b>Retirements</b>	<b>Net of Divestitures</b>	<b>Transfers and Other Adjustments</b>		
Landfill development costs	\$ (930.6)	\$ (58.4)	\$	\$	\$	\$	\$ (989.0)
Vehicles and equipment	(963.5)	(88.2)	28.0	2.7	(.2)		(1,021.2)
Buildings and improvements	(90.6)	(6.0)					(96.6)
<b>Total</b>	<b>\$ (1,984.7)</b>	<b>\$ (152.6)</b>	<b>\$ 28.0</b>	<b>\$ 2.7</b>	<b>\$ (.2)</b>	<b>\$</b>	<b>\$ (2,106.8)</b>

**Liquidity and Capital Resources**

The major components of changes in cash flows for the six months ended June 30, 2007 and 2006 are discussed below.

*Cash Flows From Operating Activities.* Cash provided by operating activities was \$309.7 million and \$146.8 million for the six months ended June 30, 2007 and 2006, respectively. The changes in cash provided by

operating activities during the periods are primarily due to the payment of \$83.0 million for income taxes made during the six months ended June 30, 2006 related to fiscal 2005 that 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 \$81.6 million and \$146.6 million for the six months ended June 30, 2007 and 2006, respectively, and consists primarily of cash used for capital additions in 2007 and 2006. Capital additions were \$113.1 million and \$178.2 million for the six months ended June 30, 2007 and 2006, 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 six months ended June 30, 2007 and 2006 was \$231.3 million and \$101.3 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 June 30, 2007, our board of directors authorized the repurchase of up to \$2,050.0 million of our common stock. As of June 30, 2007, we had paid \$1,965.9 million to repurchase 68.5 million shares of our common stock, of which \$165.1 million was paid during the six months ended June 30, 2007 to repurchase 4.8 million shares of our common stock. During July 2007, our board of directors authorized the repurchase of up to an additional \$250.0 million of our common stock.

In January 2007, the board of directors approved a 3-for-2 stock split in the form of a stock dividend, effective on June 16, 2007, to stockholders of record as of June 5, 2007. We distributed approximately 64.5 million shares from treasury stock to effect the stock split.

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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 June 30, 2007, our senior debt was rated BBB+ by Standard & Poor's, BBB+ by Fitch and Baa2 by Moody's.

**Fuel Hedges**

During January 2007, we entered into option agreements related to forecasted diesel fuel purchases. These option agreements commence in January 2008 and settle each month in equal notional amounts of 500,000 gallons through December 2010. Under Statement of Financial Accounting Standards No 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), the options qualified for and were designated as effective hedges in the prices of forecasted diesel fuel purchases. In accordance with SFAS 133, the effective portion of the change in fair value as of June 30, 2007, 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 was included in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

During September 2006, we entered into option agreements 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 commenced in October 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 June 30, 2007, 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 in January 2006 and settled 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 June 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.

**Free Cash Flow**

We define free cash flow, which is not a measure determined in accordance with U.S. generally accepted accounting principles, 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 six months ended June 30, 2007 is calculated as follows (in millions):

	<b>Three Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2007</b>
Cash provided by operating activities	\$ 210.5	\$ 309.7
Purchases of property and equipment	(69.0)	(113.1)
Proceeds from sales of property and equipment	1.7	2.7
Free cash flow	\$ 143.2	\$ 199.3

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.



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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 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.

In February 2007, the Financial Accounting Standards Board issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits companies to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for our company beginning January 1, 2008. At the effective date, a company may elect the fair value option for eligible items that exist at that date. The company shall report the effect of the first remeasurement to fair value as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this statement is initially applied. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We do not believe that SFAS 159 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, income tax 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 approval from regulatory agencies in connection with operating and expanding 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 second quarter 2007 in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

**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 (April 1 - April 30, 2007)		\$		\$ 178.5
Month #2 (May 1 - May 31, 2007)	818,000	29.29	818,000	154.5
Month #3 (June 1 - June 30, 2007)	2,335,500	30.15	2,335,500	84.1
Total	3,153,500	\$ 29.93	3,153,500	\$ 84.1

The share purchases reflected in the table above were made pursuant to our \$250.0 million repurchase program approved by our board of directors in October 2006. In July 2007, 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 \$334.1 million.

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On May 17, 2007 we held our annual stockholders meeting. The holders of 174,789,423 shares of common stock were present in person or represented by proxy at the meeting. Results of votes with respect to proposals submitted at that meeting are as follows:

Our stockholders elected the following persons to serve as our directors until the next annual meeting of stockholders or until their respective successors are duly elected and qualified:

<b>Director Nominee</b>	<b>Votes Cast For</b>	<b>Votes Withheld</b>
James E. O Connor	168,465,552	6,323,871
Harris W. Hudson	173,160,555	1,628,868
John W. Croghan	172,716,548	2,072,875
W. Lee Nutter	172,805,164	1,984,259
Ramon A. Rodriguez	172,803,456	1,985,967
Allan C. Sorensen	172,797,029	1,992,394
Michael W. Wickham	172,810,534	1,978,889

Our stockholders also approved the Republic Services, Inc. 2007 Stock Incentive Plan:

<b>Votes Cast For</b>	<b>Votes Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
137,316,100	23,164,386	255,650	14,053,287

Our stockholders also ratified our board's appointment of Ernst & Young LLP as our Independent Registered Public Accounting Firm for the 2007 fiscal year:

<b>Votes Cast For</b>	<b>Votes Against</b>	<b>Abstentions</b>
174,627,748	36,114	125,561

**ITEM 6. EXHIBITS****Exhibit****Number Description of Exhibit**

- 4.1 Amended and Restated Credit Agreement of the Company, dated April 26, 2007 (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated May 2, 2007)
- 10.1 Republic Services, Inc. 2007 Stock Incentive Plan\*
- 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)

\* Management contract or compensatory plan, contract or arrangement.

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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: August 3, 2007

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**INDEX TO EXHIBITS**

**Exhibit**

**Number Description of Exhibit**

- 10.1 Republic Services, Inc. 2007 Stock Incentive Plan\*
- 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)

\* Management contract or compensatory plan, contract or arrangement.