REPUBLIC SERVICES INC
Form 10-Q
November 07, 2007

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

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o **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	**65-0716904**
(State of Incorporation)	*(IRS Employer Identification No.)*
110 S.E. 6TH STREET, 28TH FLOOR **FT. LAUDERDALE, FLORIDA**	**33301**
(Address of Principal Executive Offices)	*(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 x No o

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 x Accelerated filer o Non-accelerated filer o

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

On October 31, 2007, the registrant had outstanding 186,869,238 shares of Common Stock, par value $.01 per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22.6	$ 29.1
Accounts receivable, less allowance for doubtful accounts of $14.3 and $18.8, respectively	320.1	293.8
Prepaid expenses and other current assets	65.0	60.5
Deferred tax assets	25.0	10.0
Total Current Assets	432.7	393.4
RESTRICTED CASH	202.2	153.3
PROPERTY AND EQUIPMENT, NET	2,137.0	2,163.8
GOODWILL, NET	1,561.5	1,562.9
INTANGIBLE ASSETS, NET	27.5	31.0
OTHER ASSETS	137.1	125.0
	$ 4,498.0	$ 4,429.4
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 124.8	$ 161.5
Accrued liabilities	181.9	188.2
Deferred revenue	113.2	107.0
Notes payable and current maturities of long-term debt	2.2	2.6
Other current liabilities	134.6	142.9
Total Current Liabilities	556.7	602.2
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,654.0	1,544.6
ACCRUED LANDFILL AND ENVIRONMENTAL COSTS	300.0	260.7
DEFERRED INCOME TAXES AND OTHER LONG-TERM TAX LIABILITIES	480.9	419.7
OTHER LIABILITIES	199.2	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; 195,297,630 and 193,711,579 issued, including shares held in treasury, respectively	1.9	1.9
Additional paid-in capital	25.9	1,617.5

Retained earnings		1,521.8		1,602.6
Treasury stock, at cost (8,207,792 and 0 shares, respectively)		(247.6)		(1,800.8)
Accumulated other comprehensive income, net of tax		5.2		.9
Total Stockholders Equity		1,307.2		1,422.1
	$	4,498.0	$	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 September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
REVENUE	$ 806.2	$ 787.1	$ 2,380.2	$ 2,304.4
EXPENSES:				
Cost of operations	518.8	493.2	1,501.8	1,442.1
Depreciation, amortization and depletion	78.0	76.9	233.9	224.4
Accretion	4.3	4.0	12.6	11.6
Selling, general and administrative	76.8	79.6	235.8	236.5
OPERATING INCOME	128.3	133.4	396.1	389.8
INTEREST EXPENSE	(23.9)	(25.1)	(71.1)	(71.5)
INTEREST INCOME	3.1	4.8	9.5	11.9
OTHER INCOME (EXPENSE), NET	1.5	3.3	2.6	4.6
INCOME BEFORE INCOME TAXES	109.0	116.4	337.1	334.8
PROVISION FOR INCOME TAXES	42.0	39.1	129.0	122.1
NET INCOME	$ 67.0	$ 77.3	$ 208.1	$ 212.7
BASIC EARNINGS PER SHARE	$ .36	$ .39	$ 1.09	$ 1.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	187.8	196.3	191.4	199.3
DILUTED EARNINGS PER SHARE	$ .35	$ .39	$ 1.08	$ 1.05
WEIGHTED AVERAGE COMMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	189.7	198.4	193.3	201.9
CASH DIVIDENDS PER COMMON SHARE	$ .1700	$ .1067	$ .3834	$ .2933

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 Shares, Net	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated 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				208.1			$ 208.1
Adoption of FIN 48				(5.6)			
Stock split			(1,635.0)	(210.3)	1,845.3		
Cash dividends declared				(73.0)			
Issuances of common stock	1.5		35.1				
Issuances of restricted stock and deferred stock units	.1						
Compensation expense for stock options			4.6				
Compensation expense for restricted stock and deferred stock units			3.7				
Purchases of common stock for treasury	(9.0)				(292.1)		
Changes in value of derivative instruments, net of tax						4.3	4.3
Total comprehensive income							$ 212.4
BALANCE AT SEPTEMBER 30, 2007	187.1	$ 1.9	$ 25.9	$ 1,521.8	$ (247.6)	$ 5.2	

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)

	Nine Months Ended September 30,	
	2007	**2006**
CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 208.1	$ 212.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	141.5	134.7
Landfill depletion and amortization	87.5	84.4
Amortization of intangible and other assets	4.9	5.3
Accretion	12.6	11.6
Stock option compensation expense	4.6	3.6
Restricted stock and deferred stock unit compensation expense	3.7	4.4
Deferred tax provision	17.5	13.6
Provision for doubtful accounts, net of adjustments	.4	7.0
Income tax benefit from stock option exercises	6.5	9.7
(Gains) losses, net on sales of businesses	(.7)	(.9)
Other non-cash items	2.5	(6.0)
Changes in assets and liabilities, net of effects from business acquisitions and dispositions:		
Accounts receivable	(27.5)	(38.4)
Prepaid expenses and other assets	(12.9)	(9.0)
Accounts payable and accrued liabilities	(19.3)	(32.5)
Federal income taxes payable	(17.7)	(88.9)
Other liabilities	58.9	11.7
	470.6	323.0
CASH USED IN INVESTING ACTIVITIES:		
Purchases of property and equipment	(216.0)	(264.3)
Proceeds from sales of property and equipment	4.7	17.5
Cash used in business acquisitions, net of cash acquired	(1.9)	(2.2)
Cash proceeds from business dispositions, net of cash disposed	4.9	3.8
Change in amounts due and contingent payments to former owners		(.4)
Change in restricted cash	(48.8)	47.3
Change in restricted marketable securities		(.3)
	(257.1)	(198.6)
CASH USED IN FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt	307.5	327.0
Payments of notes payable and long-term debt	(202.1)	(134.2)
Issuances of common stock	24.6	63.9
Excess income tax benefit from stock option exercises	4.1	11.5

Purchases of common stock for treasury	(292.1)	(417.7)
Cash dividends paid	(62.0)	(57.4)
	(220.0)	(206.9)
DECREASE IN CASH AND CASH EQUIVALENTS	(6.5)	(82.5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29.1	131.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 22.6	$ 49.3

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.

Certain amounts in the 2006 Unaudited Condensed Financial Statements have been reclassified to conform to the 2007 presentation.

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:

	Balance as of December 31, 2006	Change	Balance as of January 1, 2007
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 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:

	September 30, 2007	December 31, 2006
Landfill final capping, closure and post-closure liabilities	$ 284.4	$ 257.6
Remediation	74.8	45.1
	359.2	302.7
Less: Current portion (included in other current liabilities)	(59.2)	(42.0)
Long-term portion	$ 300.0	$ 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 September 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.

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.

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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.

Final Capping, Closure and Post-Closure Costs

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

The Company has future obligations for final capping, closure and post-closure costs with respect to the landfills it owns or operates as set forth in applicable landfill permits. Final capping, closure and post-closure costs include estimated costs to be incurred for final capping and closure of landfills and estimated costs for providing required post-closure monitoring and maintenance of landfills. The permit requirements are based on the Subtitle C and Subtitle D regulations of the Resource Conservation and Recovery Act (RCRA), as implemented and applied on a state-by-state basis. Obligations associated with monitoring and controlling methane gas migration and emissions are set forth in applicable landfill permits and these requirements are based 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.

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 nine months ended September 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 three and nine months ended September 30, 2007, the Company reviewed its landfill retirement obligations for certain of its landfills and recorded an increase of $2.3 million and $7.3 million in amortization expense, respectively. The Company intends to conduct annual reviews of its landfill asset retirement obligations during the fourth quarter of each year.

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

	Nine Months Ended September 30,	
	2007	2006
Asset retirement obligation liability, beginning of year	$ 257.6	$ 239.5
Non-cash asset additions	14.7	17.3
Revisions in estimates of future cash flows	8.9	.8
Amounts settled during the period	(9.4)	(6.2)
Accretion expense	12.6	11.6
Asset retirement obligation liability, end of period	284.4	263.0
Less: Current portion (included in other current liabilities)	(29.9)	(21.5)
Long-term portion	$ 254.5	$ 241.5

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was $9.9 million at September 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. 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 ($13.5 million, or $.07 per diluted share, net of tax), of which $19.9 million was recorded for remediation costs related to estimated costs the Company believed would be required to comply with Final Findings and Orders (F&Os) issued by the Ohio Environmental Protection Agency (OEPA) in response to environmental conditions at the Company s Countywide Recycling and Disposal Facility (Countywide) in East Sparta, Ohio. The remaining $2.1 million of the pre-tax charge consisted 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.

The Company has complied with and will continue to comply with the F&Os. However, while there are indications that the reaction is beginning to subside, the Company nevertheless recently agreed with the OEPA to take certain additional remedial actions at Countywide, including creating multiple barriers in the landfill to further isolate the reaction. Consequently, the Company recorded an additional pre-tax charge of $23.3 million charge ($14.4 million, or $.08 per diluted share, net of tax) during the three months ended September 30, 2007. While the Company intends to vigorously pursue financial contribution from third parties for its costs to comply with the F&Os and the additional remedial actions, the Company has not recorded any receivables for potential recoveries.

Also during the third quarter of 2007, the Company recorded a pre-tax charge of $9.6 million charge ($5.9 million, or $.03 per diluted share, net of tax) associated with an increase in estimated leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at the Company s closed disposal facility in Contra Costa County, California. These additional costs are attributable to a recently signed consent agreement with the California Department of Toxic Substance Control.

The majority of these additional costs will be paid during fiscal 2008. It is reasonably possible that the Company will need to adjust the charges noted above 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. Future changes in the Company s estimates of the costs, timing or duration of the required actions could have a material adverse effect on the Company s

financial position, results of operations or cash flows.

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

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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

Purchases of property and equipment for the nine months ended September 30, 2007 and 2006 were $216.0 million and $264.3 million, respectively. These amounts exclude $17.7 million and $16.9 million, respectively, of accrued capital spending for property and equipment that the Company had taken title to prior to the end of the period, but for which payment had not yet been made at that time. These payments will be reflected in the statement of cash flows as purchases of property and equipment in the periods in which the payments are made. The purchases of property and equipment for the three and nine months ended September 30, 2007 and 2006 include $50.0 million and $39.1 million, respectively, of capital expenditures that were accrued for in prior periods.

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

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

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, direct costs incurred to acquire, construct and develop sites, and 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 $2.1 million and $1.7 million for the nine months ended September 30, 2007 and 2006, respectively.

A summary of property and equipment is as follows:

	September 30, 2007	December 31, 2006
Other land	$ 108.4	$ 105.9
Non-depletable landfill land	52.7	52.7
Landfill development costs	1,761.7	1,722.2
Vehicles and equipment	1,943.4	1,886.8
Buildings and improvements	327.2	307.5
Construction-in-progress landfill	91.1	61.1
Construction-in-progress other	10.9	12.3
	4,295.4	4,148.5
Less: Accumulated depreciation, depletion and amortization		
Landfill development costs	(1,015.8)	(930.6)
Vehicles and equipment	(1,043.1)	(963.5)
Buildings and improvements	(99.5)	(90.6)
	(2,158.4)	(1,984.7)
Property and equipment, net	$ 2,137.0	$ 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,

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 nine months ended September 30, 2007 and 2006. The aggregate purchase price paid for these transactions was $1.9 million and $2.2 million, respectively.

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 nine months ended September 30, 2007 and 2006:

	Gross Intangible Assets		
	Goodwill	**Other**	**Total**
Balance, December 31, 2006	$ 1,704.6	$ 66.6	$ 1,771.2
Acquisitions	.6	.4	1.0
Divestitures	(2.1)		(2.1)
Balance, September 30, 2007	$ 1,703.1	$ 67.0	$ 1,770.1

	Accumulated Amortization		
	Goodwill	**Other**	**Total**
Balance, December 31, 2006	$ (141.7)	$ (35.6)	$ (177.3)
Amortization expense		(3.9)	(3.9)
Divestitures	.1		.1
Balance, September 30, 2007	$ (141.6)	$ (39.5)	$ (181.1)

	Gross Intangible Assets		
	Goodwill	**Other**	**Total**
Balance, December 31, 2005	$ 1,705.6	$ 56.8	$ 1,762.4
Acquisitions	(.9)	.1	(.8)
Divestitures	(.8)		(.8)
Other additions		.1	.1
Balance, September 30, 2006	$ 1,703.9	$ 57.0	$ 1,760.9

	Accumulated Amortization		
	Goodwill	**Other**	**Total**
Balance, December 31, 2005	$ (141.8)	$ (29.8)	$ (171.6)
Amortization expense		(4.3)	(4.3)
Divestitures	.1		.1

Balance, September 30, 2006	$ (141.7)	$ (34.1)	$ (175.8)

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.

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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.

6. DEBT

Notes payable and long-term debt are as follows:

	September 30, 2007	December 31, 2006
$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 $1.2 million and $1.4 million, and including $2.7 million and $6.0 million of adjustments to fair market value related to the interest rate swap as of September 30, 2007 and December 31, 2006, respectively; interest payable semi-annually in February and August at 6.75%; principal due at maturity in 2011	446.1	442.6
$275.7 million unsecured notes, net of unamortized discount of $.2 million and including unamortized premium of $26.9 million and $27.1 million as of September 30, 2007 and December 31, 2006, respectively; interest payable semi-annually in March and September at 6.086%; principal due at maturity in 2035	248.6	248.4
$1.0 billion unsecured revolving credit facility; interest payable using LIBOR-based rates; maturing in 2012	100.0	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	725.9	674.2
Other debt; unsecured and secured by real property, equipment and other assets	36.3	37.7
	1,656.2	1,547.2
Less: Current portion	(2.2)	(2.6)
Long-term portion	$ 1,654.0	$ 1,544.6

As of September 30, 2007, the Company had $100.0 million of LIBOR-based borrowings and $432.3 million of letters of credit outstanding under its $1.0 billion unsecured revolving credit facility, leaving $467.7 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

September 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.

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As of September 30, 2007, the Company had $202.2 million of restricted cash, of which $84.6 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 $79.2 million (net of capitalized interest of $2.1 million) and $78.5 million (net of capitalized interest of $1.7 million) for the nine months ended September 30, 2007 and 2006, respectively.

Other debt includes a $35.6 million capital lease liability as of September 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 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 September 30, 2007, the interest rate swap agreements are reflected at a fair market value of $2.7 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 nine months ended September 30, 2007 and 2006, the Company recorded net interest expense of $1.8 million and $1.7 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 nine months ended September 30, 2007 and 2006 based on the Company s anticipated annual effective income tax rate. During the three months ended March 31, 2007, the Company recorded a charge of $4.2 million in its provision for income taxes related to the resolution of various income tax matters. During the three months ended June 30, 2007, the Company recorded a benefit of $5.0 million in its provision for income taxes related to the resolution of various tax matters, which effectively closes the Internal Revenue Service s audits of the Company s consolidated tax returns for fiscal years 2001 through 2004. Income tax expense for the three and nine months ended September 30, 2006 includes a $5.1 million benefit related to the favorable resolution of various income tax matters, including the effective completion of federal tax audits for the years 1998 through 2000. Income taxes paid (net of refunds received) were $108.6 million and $174.6 million for the nine months ended September 30, 2007 and 2006, respectively. Approximately $83.0 million of income taxes paid during the nine months ended September 30, 2006 related to fiscal 2005. This $83.0 million payment had been deferred as a result of an Internal Revenue Service notice issued in response to Hurricane Katrina.

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 and management have agreed to certain adjustments related to examined tax returns 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 the Company 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.

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 September 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 nine months ended September 30, 2007 is as follows:

	Stock Options	Weighted-Average Exercise Price
Outstanding at December 31, 2006	8.6	$ 16.76
Granted	1.3	29.31
Exercised (a)	(1.7)	13.47
Cancelled	(.1)	23.26
Outstanding at September 30, 2007	8.1	$ 19.47
Exercisable at September 30, 2007 (b)	5.8	$ 16.13

(a) The aggregate intrinsic value of stock options

exercised during the nine months ended September 30, 2007 was $27.9 million.

(b) Stock options exercisable as of September 30, 2007 have a weighted-average contractual term remaining of 5.4 years and an aggregate intrinsic value of $96.8 million based on the market value of the Company s common stock as of September 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 $4.6 million and $3.6 million of equity-based compensation expense for stock options during the nine months ended September 30, 2007 and 2006, respectively. Prior to

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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 $4.1 million and $11.5 million of its excess tax benefits as cash flows from financing activities for the nine months ended September 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.

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 nine months ended September 30, 2007 and 2006 were $6.49 and $6.23 per option, respectively, which were calculated using the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2007	**2006**
Expected volatility	23.5%	26.7%
Risk-free interest rate	4.8%	4.6%
Dividend yield	1.5%	1.4%
Expected life	4.0 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 September 30, 2007, total unrecognized compensation expense for outstanding stock options was $7.5 million, which will be recognized over a weighted average period of 2.0 years.

During each of the nine month periods ended September 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 nine months ended September 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 nine months ended

September 30, 2007 and 2006, compensation expense related to stock units and restricted stock of $3.7 million and $4.4 million, respectively, was recorded in the Company s Unaudited Condensed Consolidated Statements of Income. The compensation expense for restricted stock recorded during the nine months ended September 30, 2006 includes $1.5 million of incremental expense for accelerating the expense recognition period for grants to employees that are or will become retirement-eligible during the stated vesting period of the restricted stock as required under SFAS 123(R) based on the retirement terms that were in effect at that time.

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A summary of deferred stock unit and restricted stock activity for the nine months ended September 30, 2007 is as follows:

	Deferred Stock Units and Restricted Stock (in thousands)	Weighted-Average Grant Date Fair Value per Share
Unissued at December 31, 2006	289.0	$ 23.42
Granted	236.9	29.31
Vested and issued	(127.5)	23.71
Unissued at September 30, 2007	398.4	$ 26.83
Vested and unissued at September 30, 2007	108.9	$ 21.87

9. STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

From 2000 through September 30, 2007, the Board of Directors authorized the repurchase of up to $2.3 billion of the Company s common stock. As of September 30, 2007, the Company had paid $2.1 billion to repurchase 72.7 million shares of its common stock of which 9.0 million shares were acquired during the nine months ended September 30, 2007 for $292.1 million.

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 July 2007, the Company paid a cash dividend of $20.5 million to stockholders of record as of July 2, 2007. As of September 30, 2007, the Company recorded a dividend payable of $31.8 million to stockholders of record at the close of business on October 1, 2007. In November 2007, the Company s Board of Directors declared a regular quarterly dividend of $.17 per share payable to stockholders of record as of January 2, 2008.

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.

Earnings per share for the three and nine months ended September 30, 2007 and 2006 is calculated as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net income	$ 67,000	$ 77,300	$ 208,100	$ 212,700
Denominator:				
Denominator for basic earnings per share	187,827	196,274	191,401	199,326
Effect of dilutive securities				
Options to purchase common stock	1,895	2,173	1,912	2,587
Unvested restricted stock awards	4	2	2	4
Denominator for diluted earnings per share	189,726	198,449	193,315	201,917
Basic earnings per share	$ .36	$ .39	$ 1.09	$ 1.07
Diluted earnings per share	$ .35	$ .39	$ 1.08	$ 1.05
Antidilutive securities not included in the diluted earnings per share calculation:				
Options to purchase common stock	988	1,364	1,256	1,373

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, $2.9 million representing the effective portion of the change in fair value as of September 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 nine months ended September 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, the effective portion of the change in fair value as of September 30, 2007, net of tax, was not material and has been recorded in stockholders equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the Company s Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 2007. Realized losses of $1.8 million related to these option agreements are included in cost of operations in the Company s Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 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, $.2 million representing the effective portion of the change in fair value as of September 30, 2006, net of tax, has been recorded in stockholders equity as a component of accumulated other comprehensive income. The ineffective portion of the

change in fair value was not material and has been recorded in other income (expense), net in the Company s Unaudited Condensed Consolidated Statements of Income. Realized losses of $.1 million related to these option agreements are included in cost of operations in the Company s Unaudited Condensed Consolidated Statements of Income for the nine months ended September 30, 2006.

11. SEGMENT INFORMATION

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

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

2007	Gross Revenue	Intercompany Revenue (a)	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss) (c)	Capital Expenditures	Total Assets
Eastern Region (b) (c)	$ 507.2	$ (74.0)	$ 433.2	$ 40.3	$ 40.8	$ 25.6	$ 869.4
Central Region	617.7	(133.5)	484.2	66.3	87.0	51.8	1,120.2
Southern Region	692.2	(71.9)	620.3	54.5	136.2	64.9	912.2
Southwestern Region	300.5	(37.1)	263.4	25.6	48.0	23.5	452.9
Western Region (b) (c)	729.6	(151.0)	578.6	54.4	130.9	39.6	863.4
Corporate Entities (d)	.5		.5	5.4	(46.8)	10.6	279.9
Total	$ 2,847.7	$ (467.5)	$ 2,380.2	$ 246.5	$ 396.1	$ 216.0	$ 4,498.0

2006	Gross Revenue	Intercompany Revenue (a)	Net Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Capital Expenditures	Total Assets
Eastern Region	$ 500.0	$ (74.3)	$ 425.7	$ 33.3	$ 70.8	$ 32.9	$ 886.9
Central Region	615.2	(137.1)	478.1	70.0	83.4	47.6	1,122.1
Southern Region	665.0	(67.6)	597.4	55.5	113.7	55.7	907.3
Southwestern Region	285.2	(32.8)	252.4	26.6	43.8	21.0	450.8
Western Region	686.5	(135.7)	550.8	46.4	128.1	61.7	851.1
Corporate Entities (d)				4.2	(50.0)	45.4	270.7
Total	$ 2,751.9	$ (447.5)	$ 2,304.4	$ 236.0	$ 389.8	$ 264.3	$ 4,488.9

(a) 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.

(b) Depreciation, amortization, depletion and accretion includes an increase in amortization expense of $7.3 million recorded during the nine months ended September 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.

(c) Operating income in the Eastern Region includes a charge of $44.6 million recorded during the nine months ended September 30, 2007 related to estimated costs to comply with

Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at the Company s Countywide facility. Operating income in the Western Region includes a charge of $9.6 million associated with an increase in estimated leachate treatment and disposal costs at the Company s closed Contra Costa County facility.

(d) 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006 (a)	2007	2006 (a)
Collection:				
Residential	$ 201.3	$ 193.0	$ 598.7	$ 564.9
Commercial	237.8	224.0	701.8	656.1
Industrial	165.8	169.9	488.3	495.1
Other	4.9	5.2	14.7	16.9
Total collection	609.8	592.1	1,803.5	1,733.0
Transfer and disposal	307.6	305.6	899.5	892.8
Less: Intercompany	(156.7)	(149.9)	(461.9)	(443.6)
Transfer and disposal, net	150.9	155.7	437.6	449.2
Other	45.5	39.3	139.1	122.2
Revenue	$ 806.2	$ 787.1	$ 2,380.2	$ 2,304.4

(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 twenty 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, workers 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 workers compensation, general liability, vehicle liability and employee-related health care benefits are effectively self-insured. Claims in excess of self-insurance levels are fully

insured subject to policy limits. Accruals are based on claims filed and estimates of claims incurred but not reported.

The Company s liabilities for unpaid and incurred but not reported claims at September 30, 2007 (which includes claims for workers compensation, general liability, vehicle liability and employee health care benefits) were $173.2 million under its current risk management program and are included in other current and other liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. While the ultimate amount of claims incurred is dependent on future developments, in management s opinion, recorded reserves are adequate to cover the future payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in the Unaudited Condensed Consolidated Statements of Income in the periods in which such adjustments are known.

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 cash deposits as financial guarantees of the Company s performance. A summary of letters of credit and surety bonds outstanding is as follows:

	September 30, 2007	December 31, 2006
Letters of credit	$ 664.3	$ 638.4
Surety bonds	477.9	463.4

As of September 30, 2007, $432.3 million of the above letters of credit were outstanding under the Company s revolving credit facility. Also, as of September 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:

	September 30, 2007	December 31, 2006
Restricted cash:		
Financing proceeds	$ 84.6	$ 65.6
Other	117.6	87.7
	$ 202.2	$ 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.

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 136 collection companies in 21 states. We also own or operate 94 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 nine months ended September 30, 2007 and 2006 (in millions):

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2007		**2006 (a)**		**2007**		**2006 (a)**	
Collection:								
Residential	$ 201.3	25.0%	$ 193.0	24.5%	$ 598.7	25.2%	$ 564.9	24.5%
Commercial	237.8	29.5	224.0	28.4	701.8	29.5	656.1	28.5
Industrial	165.8	20.6	169.9	21.6	488.3	20.5	495.1	21.5
Other	4.9	.6	5.2	.7	14.7	.6	16.9	.7
Total collection	609.8	75.7	592.1	75.2	1,803.5	75.8	1,733.0	75.2
Transfer and disposal	307.6		305.6		899.5		892.8	
Less: Intercompany	(156.7)		(149.9)		(461.9)		(443.6)	
Transfer and disposal, net	150.9	18.7	155.7	19.8	437.6	18.4	449.2	19.5
Other	45.5	5.6	39.3	5.0	139.1	5.8	122.2	5.3
Revenue	$ 806.2	100.0%	$ 787.1	100.0%	$ 2,380.2	100.0%	$ 2,304.4	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 September 30, 2007 and 2006, approximately 59% and 56%, 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 nine months ended September 30, 2007 and 2006 is shown in the following table:

2007	Net Revenue	Depreciation, Amortization, Depletion and Accretion Before SFAS 143 Adjustments	SFAS 143 Adjustments to Amortization Expense for Changes in Estimates and Assumptions	Depreciation, Amortization, Depletion and Accretion	Operating Income (Loss)	Operating Margin
Eastern Region	$ 433.2	$ 38.2	$ 2.1	$ 40.3	$ 40.8	9.4%
Central Region	484.2	66.3		66.3	87.0	18.0
Southern Region	620.3	54.5		54.5	136.2	22.0
Southwestern Region	263.4	25.6		25.6	48.0	18.2
Western Region	578.6	49.2	5.2	54.4	130.9	22.6
Corporate Entities	.5	5.4		5.4	(46.8)	
Total	$ 2,380.2	$ 239.2	$ 7.3	$ 246.5	$ 396.1	16.6

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

Total	$ 2,304.4	$ 236.0	$ 389.8	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 $44.6 million increase in operating expenses including 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

margins increased from 16.6% in 2006 to 19.7% in 2007, primarily due to higher revenue, lower disposal costs, and lower truck and equipment maintenance costs.

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 and a general slowdown in economic conditions. Lower landfill volumes are primarily due to our decision to limit our acceptance of certain waste streams.

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

In our Southern Region, price increases in all lines of business, increases in the price of commodities, 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, lower truck and equipment maintenance costs, and lower labor 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 disposal, truck maintenance and insurance costs.

In our Western Region, price increases in all lines of business, volume increases in the residential collection line 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 industrial collection, commercial collection and landfill volumes resulting from a general slowdown in residential construction in 2007.

Operating margins in our Western Region decreased because of an $8.1 million increase in landfill operating costs and a $5.2 million increase in SFAS 143 amortization expense associated with environmental conditions at our closed disposal facility in Contra Costa County, California. Excluding these expenses, operating margins increased from 23.3% in 2006 to 24.9% in 2007, primarily due to higher revenue, lower rates per unit of service and an increase in the price of commodities.

Business Combinations

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

Consolidated Financial Statements from the date of acquisition.

We acquired various solid waste businesses during the nine months ended September 30, 2007 and 2006. The aggregate purchase price we paid in these transactions was $1.9 million and $2.2 million in cash, respectively.

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

Consolidated Results of Operations

Our net income was $67.0 million, or $.35 per diluted share, for the three months ended September 30, 2007, as compared to $77.3 million, or $.39 per diluted share, for the three months ended September 30, 2006. Our net income was $208.1 million, or $1.08 per diluted share, for the nine months ended September 30, 2007, as compared to $212.7 million, or $1.05 per diluted share, for the nine months ended September 30, 2006.

During the three months ended March 31, 2007, we recorded a pre-tax charge of $22.0 million ($13.5 million, or $.07 per diluted share, net of tax) related to estimated costs we believed would be required 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. We have complied with and will continue to comply with the F&Os. However, while there are indications that the reaction is beginning to subside, we have nevertheless recently agreed with the OEPA to take certain additional remedial actions at Countywide, including creating multiple barriers in the landfill to further isolate the reaction. Consequently, we recorded an additional pre-tax charge of $23.3 million ($14.4 million, or $.08 per diluted share, net of tax) during the three months ended September 30, 2007. While we intend to vigorously pursue financial contributions from third parties for our costs to comply with the F&Os and the additional remedial actions, we have not recorded any receivables for potential recoveries.

During the three months ended September 30, 2007, we recorded a $9.6 million pre-tax charge ($5.9 million, or $.03 per diluted share, net of tax) associated with an increase in estimated leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at our closed disposal facility in Contra Costa County, California. These additional costs are attributable to a recently signed consent agreement with the California Department of Toxic Substance Control.

These charges affected our Unaudited Condensed Consolidated Statements of Income as follows:

	Three Months Ended March 31, 2007	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Expenses:			
Cost of operations	$ 18.0	$ 31.1	$ 49.1
Depreciation, amortization and depletion	2.1	1.5	3.6
Selling, general and administrative	1.2	.3	1.5
Operating income	(21.3)	(32.9)	(54.2)
Other income (expense), net	(.7)		(.7)
Income before income taxes	$ (22.0)	$ (32.9)	$ (54.9)

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. Income tax expense for the three and nine months ended September 30, 2006 includes a $5.1 million benefit related to the favorable resolution of various income tax matters, including the effective completion of federal tax audits for the years 1998 through 2000.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Revenue	$ 806.2	100.0%	$ 787.1	100.0%	$ 2,380.2	100.0%	$ 2,304.4	100.0%
Cost of operations	518.8	64.4	493.2	62.7	1,501.8	63.1	1,442.1	62.6
Depreciation, amortization and depletion of property and equipment	76.4	9.5	75.1	9.6	229.0	9.7	219.1	9.5
Amortization of intangible assets	1.6	.2	1.8	.2	4.9	.2	5.3	.2
Accretion	4.3	.5	4.0	.5	12.6	.5	11.6	.5
Selling, general and administrative expenses	76.8	9.5	79.6	10.1	235.8	9.9	236.5	10.3
Operating income	$ 128.3	15.9%	$ 133.4	16.9%	$ 396.1	16.6%	$ 389.8	16.9%

Revenue. Revenue was $806.2 million and $787.1 million for the three months ended September 30, 2007 and 2006, respectively, an increase of 2.4%. Revenue was $2,380.2 million and $2,304.4 million for the nine months ended September 30, 2007 and 2006, respectively, an increase of 3.3%. The following table reflects the components of our revenue growth for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Core price	4.0%	3.8%	4.1%	3.4%
Fuel surcharges	(.1)	1.4		1.4
Environmental fees	.1	.3	.3	.3
Recycling commodities	.9		.9	(.3)
Total price	4.9	5.5	5.3	4.8
Core volume (a)	(1.9)	1.9	(1.5)	3.5
Non-core volume	(.1)	.1	(.1)	.1
Total volume	(2.0)	2.0	(1.6)	3.6
Total internal growth	2.9	7.5	3.7	8.4
Acquisitions, net of divestitures	(.6)	.2	(.4)	(.1)
Taxes (b)	.1	.1		.1

Total revenue growth	2.4%	7.8%	3.3%	8.4%

(a) Core volume growth for the three and nine months ended September 30, 2006 includes .9% and .7%, 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 nine months ended September 30, 2007 is negligible.

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

During the nine months ended September 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 nine months ended September 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 $518.8 million and $1,501.8 million for the three and nine months ended September 30, 2007, versus $493.2 million and $1,442.1 million for the comparable 2006 periods. Cost of operations as a percentage of revenue was 64.4% and 63.1% for the three and nine months ended September 30, 2007, versus 62.7% and 62.6% for the comparable 2006 periods. The increase in cost of operations in aggregate dollars for the nine months ended

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September 30, 2007 versus the comparable 2006 period is primarily a result of the $41.0 million of charges we have 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 and the $8.1 million charge we recorded related to an increase in leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at our closed disposal facility in Contra Costa County, California.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Subcontractor, disposal and third-party fees	$ 178.5	22.2%	$ 189.3	24.1%	$ 526.5	22.1%	$ 544.3	23.6%
Labor and benefits	154.6	19.2	149.6	19.0	460.1	19.3	441.1	19.2
Maintenance and operating	145.8	18.1	118.1	15.0	389.9	16.4	340.9	14.8
Insurance and other	39.9	4.9	36.2	4.6	125.3	5.3	115.8	5.0
Total	$ 518.8	64.4%	$ 493.2	62.7%	$ 1,501.8	63.1%	$ 1,442.1	62.6%

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 nine months ended September 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 nine months ended September 30, 2007 versus the comparable 2006 periods increased due to increases in wages and benefits. During December 2006, we assumed responsibility for hauling a portion of our transfer station volumes to one of our landfills. This hauling service reduced our third-party fees and increased various other cost categories, the most significant of which is labor.

Maintenance and operating includes costs such as fuel, parts, shop labor and benefits, third-party repairs, and landfill monitoring and operating. The increase in such expenses as a percentage of revenue for the three and nine months ended September 30, 2007 versus the comparable 2006 periods is primarily due to an increase in landfill operating costs resulting from $41.0 million of charges recorded during the nine months ended September 30, 2007 for our Countywide facility. These charges related to increases in estimated costs to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions. In addition, landfill operating costs increased due to an $8.1 million charge associated with an increase in estimated leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at our closed disposal facility in Contra Costa County, California.

Insurance and other includes costs such as workers compensation, auto and general liability insurance, property taxes, property maintenance and utilities. The increase in such expenses as a percentage of revenue for the three and nine months ended September 30, 2007 versus the comparable 2006 periods 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 $76.4 million and $229.0 for the three and nine months ended September 30, 2007, versus $75.1 million and $219.1 million for the comparable 2006 periods. Depreciation, amortization and depletion of property and equipment as a percentage of revenue was 9.5% and 9.7% for the three and nine months ended September 30, 2007, versus 9.6% and 9.5% for the comparable 2006 periods. The increase in such expenses in aggregate dollars and as a percentage of revenue for the nine month periods presented is due to a $5.2 million adjustment to landfill amortization expense associated

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with one of our facilities in Contra Costa County, California and a $2.1 million adjustment to landfill amortization expense associated with our Countywide facility. In addition, during the nine months ended September 30, 2007, we incurred approximately $2.5 million of additional depletion and amortization expense, and we expect to incur approximately $.8 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 $1.6 million and $4.9 million for the three and nine months ended September 30, 2007, versus $1.8 million and $5.3 million for the comparable 2006 periods. Amortization of intangible assets as a percentage of revenue was .2% for the three and nine months ended September 30, 2007 and 2006.

Accretion Expense. Accretion expense was $4.3 million and $12.6 million for the three and nine months ended September 30, 2007, versus $4.0 million and $11.6 million for the comparable 2006 periods. Accretion expense as a percentage of revenue was .5% for the three and nine months ended September 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 $76.8 million and $235.8 million for the three and nine months ended September 30, 2007, versus $79.6 million and $236.5 million for the comparable 2006 periods. Selling, general and administrative expenses as a percentage of revenue were 9.5% and 9.9% for the three and nine months ended September 30, 2007, versus 10.1% and 10.3% for the comparable 2006 periods. The decrease in such expenses in aggregate dollars and as a percentage of revenue for the three month periods presented is primarily due to a reduction in incentive compensation costs. The decrease in such expenses in aggregate dollars and as a percentage of revenue for the nine month periods presented is primarily due to a reduction in incentive compensation costs and 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. We believe selling, general and administrative costs as a percentage of revenue for the year ended December 31, 2007 will be approximately 10%.

Interest Expense. We incurred interest expense primarily on our unsecured notes and tax-exempt bonds. Interest expense was $23.9 million and $71.1 million for the three and nine months ended September 30, 2007, versus $25.1 million and $71.5 million for the comparable 2006 periods. The changes in interest expense during the three and nine months ended September 30, 2007 versus the comparable 2006 periods are primarily due to changes in debt balances and short-term interest rates.

Capitalized interest was $.8 million and $2.1 million for the three and nine months ended September 30, 2007, versus $.8 million and $1.7 million for the comparable 2006 periods.

Interest and Other Income (Expense), Net. Interest and other income, net of other expense, was $4.6 million and $12.1 million for the three and nine months ended September 30, 2007, versus $8.1 million and $16.5 million for the comparable 2006 periods.

Income Taxes. Our provision for income taxes was $42.0 million and $129.0 million for the three and nine months ended September 30, 2007, versus $39.1 million and $122.1 million for the comparable 2006 periods. Our effective income tax rate was 38.5% and 38.3% for the three and nine months ended September 30, 2007 versus 33.6% and 36.5% 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. Income tax expense for the three and nine months ended September 30, 2006 includes a $5.1 million benefit related to the favorable resolution of various income tax matters, including the effective completion of federal tax audits for the year 1998 through 2000. We believe that our effective income tax rate for the remainder of 2007 will be approximately 38.5%.

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Landfill and Environmental Matters

Available Airspace

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

	Balances as of December 31, 2006	New Expansions Undertaken	Landfills No Longer Operated	Permits Granted	Airspace Consumed	Changes in Design	Changes in Engineering Estimates	Balances as of September 30, 2007
Permitted airspace:								
Cubic yards (in millions)	1,597.2		(4.4)	1.2	(30.3)	(27.9)	6.9	1,542.7
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)	1.2	(30.3)	(35.4)	7.4	1,734.7
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 a net 12.9 million cubic yards primarily due to new expansions undertaken, changes in engineering estimates and permits granted, partially offset by airspace consumed and changes in design. In addition, during the nine months ended September 30, 2007, total available airspace was reduced 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 September 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 September 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.

As of September 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 11.1% 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 September 30, 2007, accrued final capping, closure and post-closure costs were $284.4 million. The current portion of these costs of $29.9 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in other current liabilities. The long-term portion of these costs of $254.5 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in accrued landfill and environmental costs.

Remediation and Other Charges for Landfill Matters

During the three months ended March 31, 2007, we recorded a pre-tax charge of $22.0 million related to estimated costs we believed would be required to comply with Final Findings and Orders issued by the Ohio Environmental Protection Agency in response to environmental conditions at our Countywide facility. We have complied with and will continue to comply with the F&Os. However, while there are indications that the reaction is beginning to subside, we have nevertheless recently agreed with the OEPA to take certain additional remedial actions at Countywide, including creating multiple barriers in the landfill to further isolate the reaction. Consequently, we recorded an additional pre-tax charge of $23.3 million during the three months ended September 30, 2007. We also recorded $2.5 million of additional depletion and amortization expense during the nine months ended September 30, 2007 and we will record approximately $.8 million of additional depletion and

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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, we have not recorded any receivables for potential recoveries.

Also during the three months ended September 30, 2007, we recorded a $9.6 million charge associated with an increase in estimated leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at our closed disposal facility in Contra Costa County, California. These additional costs are attributable to a recently signed consent agreement with the California Department of Toxic Substance Control.

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.

Investment in Landfills

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

	Balance as of December 31, 2006	Capital Additions	Retirements	Non-Cash Additions for Asset Retirement Obligations	SFAS 143 Adjustments to Amortization Expense	Additions Charged to Expense	Transfers And Other Adjustments	Balance as of September 30, 2007
Non-depletable landfill land	$ 52.7	$	$	$	$	$	$	$ 52.7
Landfill development costs	1,722.2	.5	(2.5)	14.7	8.9		17.9	1,761.7
Construction in progress landfill	61.1	58.8					(28.8)	91.1
Accumulated depletion and amortization	(930.6)		2.3			(87.5)		(1,015.8)
Net investment in landfill land and development costs	$ 905.4	$ 59.3	$ (.2)	$ 14.7	$ 8.9	$ (87.5)	$ (10.9)	$ 889.7

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

	Balance as of September 30, 2007	Expected Future Investment	Total Expected Investment
Non-depletable landfill land	$ 52.7	$	$ 52.7
Landfill development costs	1,761.7	1,782.2	3,543.9
Construction in progress landfill	91.1		91.1

Accumulated depletion and amortization	(1,015.8)		(1,015.8)
Net investment in landfill land and development costs	$ 889.7	$ 1,782.2	$ 2,671.9

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The following table reflects our net landfill investment excluding non-depletable land, and our depletion, amortization and accretion expense for the nine months ended September 30, 2007 and 2006:

	Nine Months Ended September 30,	
	2007	2006
Number of landfills owned or operated	58	59
Net investment, excluding non-depletable land (in millions)	$ 837.0	$ 856.3
Total estimated available disposal capacity (in millions of cubic yards)	1,734.7	1,732.1
Net investment per cubic yard	$ .48	$ .49

The increase in depletion, amortization and accretion expense per cubic yard of airspace consumed from 2006 to 2007 is primarily due to increases of $5.0 million and $2.3 million in landfill amortization expense that we recorded during the first and third quarters of 2007, respectively, related to reviews of landfill asset retirement obligations at certain of our landfills. This increase is also partially due to $2.5 million of additional depletion and amortization expense we have recorded during the nine months ended September 30, 2007 associated with a reduction of estimated remaining available airspace at our Countywide facility.

During the nine months ended September 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 September 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 $1.51 per cubic yard, is used in determining our depletion and amortization expense based on airspace consumed using the units-of-consumption method.

Financial Condition

At September 30, 2007, we had $22.6 million of cash and cash equivalents. We also had $202.2 million of restricted cash deposits, including $84.6 million of restricted cash held for capital expenditures under certain debt facilities.

In September 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 September 30, 2007, we had $467.7 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 September 2005, we exchanged $275.7 million of our outstanding 7.125% notes due 2009 for new notes due 2035. The new notes bear interest at 6.086%. We paid a premium of $27.6 million related to the exchange. This premium is being amortized over the life of the new notes using the effective yield method.

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

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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 September 30, 2007, we had $725.9 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 September 30, 2007, we had $84.6 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 nine months ended September 30, 2007 (in millions):

	Allowance for Doubtful Accounts	Final Capping, Closure and Post-Closure	Remediation	Self-Insurance
Balance, December 31, 2006	$ 18.8	$ 257.6	$ 45.1	$ 157.7
Non-cash asset additions		14.7		
Revisions in estimates of future cash flows recorded as non-cash asset additions		8.9		
Accretion expense		12.6		
Other additions charged to expense, net of adjustments	.4		51.4	137.1
Payments or usage	(4.9)	(9.4)	(21.7)	(121.6)
Balance, September 30, 2007	14.3	284.4	74.8	173.2
Less: Current portion	(14.3)	(29.9)	(29.3)	(57.1)
Long-term portion	$	$ 254.5	$ 45.5	$ 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 September 30, 2007, accounts receivable were $320.1 million, net of allowance for doubtful accounts of $14.3 million, resulting in days sales outstanding of 36, or 23 days net of deferred revenue. In addition, at September 30, 2007, our accounts receivable in excess of 90 days old totaled $17.7 million, or 5.3% of gross receivables outstanding.

Property and Equipment

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

	Gross Property and Equipment							
	Balance as of December 31, 2006	Capital Additions	Retirements	Acquisitions, Net of Divestitures	Non-Cash Additions for Asset Retirement Obligations	SFAS 143 Adjustments	Transfers And Other Adjustments	Balance as of September 30, 2007
Other land	$ 105.9	$ .9	$ (.2)	$	$	$	$ 1.8	$ 108.4
Non-depletable landfill land	52.7							52.7
Landfill development costs	1,722.2	.5	(2.5)		14.7	8.9	17.9	1,761.7
Vehicles and equipment	1,886.8	111.5	(54.1)	(3.6)			2.8	1,943.4
Buildings and improvements	307.5	.6					19.1	327.2
Construction in progress landfill	61.1	58.8					(28.8)	91.1
Construction in progress other	12.3	11.4					(12.8)	10.9
Total	$ 4,148.5	$ 183.7	$ (56.8)	$ (3.6)	$ 14.7	$ 8.9	$	$ 4,295.4

	Accumulated Depreciation, Amortization and Depletion					
	Balance as of December 31, 2006	Additions Charged to Expense	Retirements	Acquisitions, Net of Divestitures	Transfers and Other Adjustments	Balance as of September 30, 2007
Landfill development costs	$ (930.6)	$ (87.5)	$ 2.3	$	$	$ (1,015.8)
Vehicles and equipment	(963.5)	(132.4)	50.3	2.7	(.2)	(1,043.1)
Buildings and improvements	(90.6)	(9.1)	.2			(99.5)
Total	$ (1,984.7)	$ (229.0)	$ 52.8	$ 2.7	$ (.2)	$ (2,158.4)

Liquidity and Capital Resources

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

Cash Flows From Operating Activities. Cash provided by operating activities was $470.6 million and $323.0 million for the nine months ended September 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 nine months ended September 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 $257.1 million and $198.6 million for the nine months ended September 30, 2007 and 2006, respectively, and consists primarily of cash used for capital expenditures in 2007 and 2006. Capital expenditures were $216.0 million and $264.3 million for the nine months ended September 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 nine months ended September 30, 2007 and 2006 was $220.0 million and $206.9 million, respectively, and consists primarily of purchases of common stock for treasury, proceeds from and payments of notes payable and long-term debt, proceeds from stock option exercises, and payments of cash dividends.

From 2000 through the period ended September 30, 2007, our board of directors authorized the repurchase of up to $2.3 billion of our common stock. As of September 30, 2007, we had paid $2.1 billion to repurchase 72.7 million shares of our common stock, of which $292.1 million was paid during the nine months ended September 30, 2007 to repurchase 9.0 million shares 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 March 16, 2007, to stockholders of record as of March 5, 2007. We distributed approximately 64.5 million shares from treasury stock to effect the stock split.

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

Credit Ratings

Our company has received investment grade credit ratings. As of September 30, 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 September 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 September 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 September 30, 2006, net of tax, has been recorded in stockholders equity as a component of accumulated other comprehensive income. The ineffective portion of the change in fair value was not material and has been recorded in other income (expense), net in the accompanying Unaudited Condensed Consolidated Statements of Income.

Contractual Obligations

Contractual obligations for remediation have changed since December 31, 2006 due to costs we recorded during the nine months ended September 30, 2007 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 and to account for an increase in estimated leachate disposal costs and costs to upgrade onsite equipment that captures and treats leachate at our closed disposal facility in Contra Costa County, California. The following table summarizes our contractual obligations for remediation as of September 30, 2007 (in millions):

	Three Months Ended December 31,	Year Ended December 31,					
	2007	2008	2009	2010	2011	Thereafter	Total
Remediation	$ 10.9	28.8	10.5	1.0	.9	22.7	$ 74.8

Free Cash Flow

We define free cash flow, which is not a measure determined in accordance with GAAP, as cash provided by operating activities less purchases of property and equipment plus proceeds from sales of property and equipment as presented in our Consolidated Statements of Cash Flows. Our free cash flow for the nine months ended September 30, 2007 and 2006 is calculated as follows (in millions):

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash provided by operating activities	$ 470.6	$ 323.0
Purchases of property and equipment	(216.0)	(264.3)
Proceeds from sales of property and equipment	4.7	17.5
Free cash flow	$ 259.3	$ 76.2

The change in cash provided by operating activities during the periods presented is primarily due to the payment of $83.0 million for income taxes made during the nine months ended September 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.

Purchases of property and equipment as reflected in our Consolidated Statements of Cash Flows and the free cash flow presented above represent amounts paid during the period for such expenditures. A reconciliation of property and equipment reflected in the Consolidated Statements of Cash Flows to property and equipment received during the period is as follows (in millions):

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Purchases of property and equipment in the Consolidated Statements of Cash Flows	$ 216.0	$ 264.3
Adjustment for property and equipment received during the prior period but paid for in the following period, net	(32.3)	(22.2)
Property and equipment received during the current period	$ 183.7	$ 242.1

The adjustments noted above do not affect either our net change in cash and cash equivalents as reflected in our Consolidated Statements of Cash Flows or our free cash flow.

We believe that the presentation of free cash flow provides useful information regarding our recurring cash provided by operating activities after expenditures for property and equipment, net of proceeds from sales of property and equipment. It also demonstrates our ability to execute our financial strategy which includes reinvesting in existing capital assets to ensure a high level of customer service, investing in capital assets to facilitate growth in our customer base and services provided, pursuing strategic acquisitions that augment our existing business platform, repurchasing shares of common stock at prices that provide value to our shareholders, paying cash dividends, maintaining our investment grade rating and minimizing debt. In addition, free cash flow is a key metric used to determine

compensation. The presentation of free cash flow has material limitations. Free cash flow does not represent our cash flow available for discretionary expenditures because it excludes certain expenditures that are required or that we have committed to such as debt service requirements and dividend payments. Our definition of free cash flow may not be comparable to similarly titled measures presented by other companies.

Seasonality

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

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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.

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;

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

our 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.

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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the quarter ended September 30, 2007, our wholly owned subsidiary, West Contra Costa Sanitary Landfill, Inc. (WCCSL) entered into a consent agreement with the California Department of Toxic Substance Control. Pursuant to the agreement, WCCSL will upgrade on site equipment to capture and treat leachate at WCCSL s closed disposal facility. In connection with the remediation agreement, WCCSL also paid approximately $.7 million in fines.

ITEM 1A. RISK FACTORS

There were no material changes during the third quarter of 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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)
Month #1 (July 1 - July 31, 2007)	2,262,250	$ 30.75	2,262,250	$ 264.6
Month #2 (August 1 - August 31, 2007)	1,918,000	29.91	1,918,000	207.1
Month #3 (September 1 - September 30, 2007)				207.1
Total	4,180,250	$ 30.36	4,180,250	$ $207.1

The share purchases reflected in the table above were made pursuant to our $250.0 million repurchase programs approved by our board of directors in October 2006 and in July 2007. 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 repurchase programs up to an aggregate of $207.1 million.

ITEM 6. EXHIBITS

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

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SIGNATURES

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

REPUBLIC SERVICES, INC.

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

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

Date: November 7, 2007