SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

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 ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

On July 30, 2004, the registrant had outstanding 151,827,058 shares of Common Stock, par value $.01 per share.

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CEO Certification Pursuant to Section 302
CFO Certification Pursuant to Section 302
CEO Certification Pursuant to Section 906
CFO Certification Pursuant to Section 906

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPUBLIC SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	June 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 65.7	$ 119.2
Accounts receivable, less allowance for doubtful accounts of $16.1 and $19.0, respectively	269.2	248.9
Prepaid expenses and other current assets	76.2	182.1
Deferred tax assets	8.4	5.8
Total Current Assets	419.5	556.0
RESTRICTED CASH	220.9	215.0
RESTRICTED MARKETABLE SECURITIES	38.1	182.4
PROPERTY AND EQUIPMENT, NET	1,965.0	1,931.0
GOODWILL, NET	1,566.0	1,558.1
INTANGIBLE ASSETS, NET	25.0	25.0
OTHER ASSETS	87.3	86.6
	$4,321.8	$4,554.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 111.9	$ 129.1
Accrued liabilities	128.9	118.6
Deferred revenue	90.9	88.5
Notes payable and current maturities of long-term debt	2.4	231.1
Other current liabilities	103.1	104.7
Total Current Liabilities	437.2	672.0
LONG-TERM DEBT, NET OF CURRENT MATURITIES	1,296.9	1,289.2
ACCRUED LANDFILL, ENVIRONMENTAL AND LEGAL COSTS	238.5	225.5
DEFERRED INCOME TAXES	384.7	353.5
OTHER LIABILITIES	124.4	109.4
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; 184,799,268 and 183,431,611 issued, including shares held in treasury, respectively	1.8	1.8
Additional paid-in capital	1,378.3	1,347.8
Deferred compensation	(1.7)	—
Retained earnings	1,138.7	1,039.3
Treasury stock, at cost (32,664,200 and 25,604,100 shares, respectively)	(677.0)	(484.3)
Accumulated other comprehensive loss, net of tax	—	(.1)
Total Stockholders' Equity	1,840.1	1,904.5
	$4,321.8	$4,554.1

The accompanying notes are an integral part of these statements.

REPUBLIC SERVICES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
REVENUE	$683.2	$637.3	$1,320.5	$1,231.9
EXPENSES:				
Cost of operations	431.2	399.3	834.7	767.0
Depreciation, amortization and depletion	65.5	59.4	123.5	116.2
Accretion	3.4	3.1	6.7	6.2
Selling, general and administrative	66.9	62.0	129.4	123.6
OPERATING INCOME	116.2	113.5	226.2	218.9
INTEREST EXPENSE	(19.2)	(19.8)	(39.9)	(40.2)
INTEREST INCOME	1.4	2.3	3.4	4.5
OTHER INCOME (EXPENSE), NET	(.2)	1.5	.3	2.3
INCOME BEFORE INCOME TAXES	98.2	97.5	190.0	185.5
PROVISION FOR INCOME TAXES	37.3	37.1	72.2	70.5
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	60.9	60.4	117.8	115.0
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX	—	—	—	(37.8)
NET INCOME	$ 60.9	$ 60.4	$ 117.8	$ 77.2
BASIC EARNINGS PER SHARE:				
Before cumulative effect of changes in accounting principles	$ .40	$ .38	$ .76	$ .71
Cumulative effect of changes in accounting principles, net of tax	—	—	—	(.23)
Basic earnings per share	$ .40	$ .38	$ .76	$ .48
Weighted average common shares outstanding	153.1	160.7	154.6	161.4
DILUTED EARNINGS PER SHARE:				
Before cumulative effect of changes in accounting principles	$ .39	$ .37	$ .75	$ .70
Cumulative effect of changes in accounting principles, net of tax	—	—	—	(.23)
Diluted earnings per share	$ .39	$ .37	$ .75	$ .47
Weighted average common and common equivalent shares outstanding	155.7	162.5	157.0	162.9
CASH DIVIDENDS PER COMMON SHARE	$ .06	$ —	$ .12	$ —

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	Par Value	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income For the Period
BALANCE AT DECEMBER 31, 2003	157.8	$1.8	$1,347.8	$ —	$1,039.3	$(484.3)	$ (.1)	
Net income	—	—	—	—	117.8	—	—	$117.8
Cash dividends	—	—	—	—	(18.4)	—	—	—
Issuance of common stock	1.4	—	27.9	—	—	—	—	—
Issuance of restricted stock and deferred stock units	—	—	2.6	(2.6)	—	—	—	—
Amortization of deferred compensation	—	—	—	.9	—	—	—	—
Purchase of common stock for treasury	(7.1)	—	—	—	—	(192.7)	—	—
Change in value of investments, net of tax	—	—	—	—	—	—	.1	.1
Total comprehensive income	—	—	—	—	—	—	—	$117.9
BALANCE AT JUNE 30, 2004	152.1	$1.8	$1,378.3	$(1.7)	$1,138.7	$(677.0)	$ —	

The accompanying notes are an integral part of this statement.

REPUBLIC SERVICES, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Six Months Ended June 30,	
	2004	**2003**
CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 117.8	$ 77.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	74.8	69.1
Landfill depletion and amortization	46.0	44.6
Amortization of intangible and other assets	2.7	2.5
Accretion	6.7	6.2
Amortization of deferred compensation	.9	—
Deferred tax provision	28.7	25.3
Provision for doubtful accounts	1.4	4.6
Income tax benefit from stock option exercises	5.8	3.1
Other non-cash charges	.2	(2.0)
Cumulative effect of changes in accounting principles, net of tax	—	37.8
Changes in assets and liabilities, net of effects from business acquisitions and dispositions:		
Accounts receivable	(21.4)	(31.2)
Prepaid expenses and other assets	99.8	(3.7)
Accounts payable and accrued liabilities	(9.5)	(20.3)
Other liabilities	8.0	39.1
	361.9	252.3
CASH USED IN INVESTING ACTIVITIES:		
Purchases of property and equipment	(118.0)	(88.1)
Proceeds from sale of property and equipment	2.6	2.9
Cash used in business acquisitions, net of cash acquired	(37.6)	(18.2)
Cash proceeds from business dispositions	—	3.2
Amounts due and contingent payments to former owners	(2.1)	(3.9)
Change in restricted cash	(5.2)	(17.8)
Change in restricted marketable securities	144.3	—
	(16.0)	(121.9)
CASH USED IN FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt	32.5	36.3
Payments of notes payable and long-term debt	(245.5)	(1.6)
Issuance of common stock	24.7	27.8
Purchases of common stock for treasury	(192.7)	(86.8)
Dividends	(18.4)	—
	(399.4)	(24.3)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53.5)	106.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	119.2	141.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 65.7	$ 247.6

The accompanying notes are an integral part of these statements.

REPUBLIC SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tables in millions, except per share data)

1. BASIS OF PRESENTATION

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

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of the Company and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. Certain information related to the Company’s organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, these Unaudited Condensed Consolidated Financial Statements reflect all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Company’s audited Consolidated Financial Statements and notes thereto appearing in the Company’s Form 10-K for the year ended December 31, 2003.

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

As of January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”). SFAS 143 required the Company to change the methodology it used to record final capping, closure and post-closure costs relating to its landfills. As of January 1, 2003, the Company recorded an after-tax expense of $20.8 million, or $33.6 million on a pre-tax basis, as a cumulative effect of a change in accounting principle resulting from the adoption of SFAS 143. In addition, the Company also recorded an after-tax expense of $17.0 million, or $27.4 million on a pre-tax basis, as a cumulative effect of a change in accounting principle for its methane gas collection systems. This change in accounting for methane gas collection systems was prompted by a thorough evaluation of the Company’s landfill accounting policies in connection with the adoption of SFAS 143 and is consistent with the methodology used by other participants in the waste industry.

In January 2003, the Financial Accounting Standards Board issued Interpretation 46, “Consolidation of Variable Interest Entities"(“FIN 46”). FIN 46 introduced a new consolidation model which determines control and consolidation based upon the majority beneficiary of the potential variability in gains and losses of the entity being evaluated. This interpretation was effective for all variable interest entities beginning March 31, 2004. The Company evaluated its organizational structure and concluded that FIN 46 has no impact on its consolidated financial position, results of operations or cash flows.

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

At June 30, 2004, the Company had $38.1 million of restricted marketable securities held as financial guarantees. These securities consist of mutual funds invested in short-term investment grade securities, including mortgage-backed securities and U.S. Government obligations. These securities are available for sale and, as a result, are stated at fair value based on quoted market prices. During the three and six months ended June 30, 2004, the

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Company recorded a $(.3) million and $ .1 million unrealized gain (loss), net of tax, to other comprehensive income related to the change in fair value of these securities.

2. ACCRUED LANDFILL, ENVIRONMENTAL AND LEGAL COSTS

Landfill, Environmental and Legal Costs

A summary of liabilities recorded for landfill, environmental and legal costs is as follows:

	June 30, 2004	December 31, 2003
Landfill final capping, closure and post-closure costs	$213.8	$204.7
Remediation	55.1	54.7
Environmental and legal costs	3.6	3.7
	272.5	263.1
Less: Current portion (included in other current liabilities)	34.0	37.6
Long-term portion	$238.5	$225.5

Life Cycle Accounting

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

Total Available Disposal Capacity

As of June 30, 2004, the Company owned or operated 58 active solid waste landfills with total available disposal capacity of approximately 1.8 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 as probable expansion airspace and, therefore, 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.

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Upon meeting the Company's expansion criteria, the rates used at each applicable landfill to expense or accrue costs to acquire, construct, cap, close and maintain a site during the post-closure period are adjusted to include probable expansion airspace. These rates are also adjusted to include 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 with state authorities; and

3. Obtaining permit approval from state authorities.

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

During the three months ended June 30, 2004, the Company reclassified 70.3 million cubic yards of available airspace related to a certain landfill from permitted airspace to expansion airspace. The expansion airspace may require a conditional use permit from the local municipality, which the Company currently does not possess. Based upon an evaluation of facts at this time, the Company believes that this matter will be resolved in its favor. The Company also believes that the expansion airspace continues to meet its criteria for inclusion in total available disposal capacity. If this matter is not resolved in the Company's favor, the expansion airspace would not meet the Company's criteria for inclusion in total available disposal capacity. This could result in a non-cash impairment charge, the amount of which cannot be reasonably estimated at this time. See Note 3, Property and Equipment, of the Notes to the Company's Unaudited Condensed Consolidated Financial Statements for further discussion of asset impairments.

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 associated with excavation, liners and site berms. 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 SFAS 143 as discussed below.

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

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

Final Capping, Closure and Post-Closure Costs

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

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

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

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

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

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

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

In general, the Company engages third parties to perform most of its final capping, closure and post-closure activities. Accordingly, the fair market value of these obligations is based upon quoted and actual prices paid for similar work. The Company does intend to perform some of its final capping, closure and post-closure obligations 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 a ten-year historical moving average of 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 was determined to be 6.50% and 6.75% for the six months ended June 30, 2004 and 2003, respectively, based upon the estimated all-in yield the Company believes it would need to offer to sell thirty-year debt in the public market. Changes in asset retirement obligations due to the passage of time are measured by recognizing accretion expense in a manner that results in a constant effective interest rate 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 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 existed when the original liability was recognized.

The Company reviews its calculations with respect to landfill asset retirement obligations at least annually. If there is a significant change in the facts and circumstances related to a landfill during the year, the Company will review its calculations for the landfill as soon as practical after the significant change has occurred. During the three months ended March 31, 2004, the Company completed its annual review and recorded a $2.6 million net reduction in operating costs primarily related to changes in estimates and assumptions concerning the cost and timing of future final capping, closure and post-closure activities.

The following table summarizes the activity in the Company's asset retirement obligation liabilities for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
Asset retirement obligation liability, beginning of year	$204.7	$196.9
Cumulative effect of change in account principle	—	(14.5)
Additions incurred during the period	9.4	8.6
Revisions in estimates of future cash flows	(3.1)	—
Acquisitions during the period	.6	—
Amounts settled during the period	(4.5)	(2.4)
Accretion expense	6.7	6.2
Asset retirement obligation liability, end of period	213.8	194.8
Less: Current portion	25.4	16.9
Long-term portion	$188.4	$177.9

The fair value of assets that are legally restricted for purposes of settling final capping, closure and post-closure obligations was approximately $6.6 million at June 30, 2004, and are included as restricted cash in the Company's Condensed Consolidated Balance Sheets.

Remediation

The Company accrues for remediation costs when they become probable and reasonably estimatable. Substantially all of the Company's recorded remediation costs are for incremental landfill post-closure care required under approved remediation action plans for acquired landfills. Remediation costs are estimated by engineers based upon site remediation plans. 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.

Environmental Costs

In the normal course of business, the Company is subject to ongoing environmental investigations by certain regulatory agencies, as well as other claims and disputes that could result in litigation. Environmental costs are accrued by the Company through a charge to income in the period such liabilities become probable and can be reasonably estimated. No significant amounts were charged to expense during the six months ended June 30, 2004 and 2003.

3. PROPERTY AND EQUIPMENT

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

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

Landfills and landfill improvements are stated at cost and include direct costs incurred to obtain landfill permits and direct costs incurred to acquire, construct and develop sites. These costs are amortized or depleted based on

consumed airspace. All indirect landfill development costs are expensed as incurred. (For further information, see Note 2, Accrued Landfill, Environmental and Legal Costs.)

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

1. Total construction costs are $50,000 or greater,

2. The construction phase is one month or longer, and

3. The assets have a useful life of one year or longer.

Interest is capitalized on qualified assets while they undergo activities to ready them for their intended use. Capitalization of interest ceases once an asset is placed into service or if construction activity is suspended for more than a brief period of time. The interest capitalization rate is based upon the Company's weighted average cost of indebtedness. Interest capitalized was $.8 million and $1.0 million for the six months ended June 30, 2004 and 2003, respectively.

A summary of property and equipment is as follows:

	June 30, 2004	December 31, 2003
Other land	$ 96.3	$ 94.4
Non-depletable landfill land	52.1	49.5
Landfill development costs	1,395.1	1,335.2
Vehicles and equipment	1,547.8	1,490.6
Buildings and improvements	275.4	267.4
Construction-in-progress — landfill	69.2	60.8
Construction-in-progress — other	9.9	6.4
	3,445.8	3,304.3
Less: Accumulated depreciation, depletion and amortization —		
Landfill development costs	(690.5)	(644.6)
Vehicles and equipment	(723.8)	(666.4)
Building and improvements	(66.5)	(62.3)
	(1,480.8)	(1,373.3)
Property and equipment, net	$ 1,965.0	$ 1,931.0

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. The allocation period generally does not exceed one year. To the extent contingencies such as preacquisition environmental matters, litigation and related legal fees are resolved or settled during the allocation period, such items are included in the revised allocation of the purchase price. After the allocation period, the effect of changes in such contingencies is included in results of operations in the periods in which the adjustments are determined. The Company does not believe potential differences between its fair value estimates and actual fair values are material.

The Company acquired various solid waste businesses during the six months ended June 30, 2004 and 2003. The aggregate purchase price paid by the Company in these transactions was $37.8 million and $18.2 million in cash, respectively. The businesses acquired during the six months ended June 30, 2004 did not materially impact the Company’s results of operations for the six months ended June 30, 2004 or 2003 on a pro forma basis.

The following summarizes the preliminary purchase price allocations for business combinations consummated during the periods presented:

	Six Months Ended June 30,	
	2004	**2003**
Property and equipment	$33.0	$ 5.9
Restricted cash	.6	—
Goodwill and other intangible assets	8.4	16.7
Working capital deficit	(3.7)	(4.3)
Other liabilities	(.7)	(.1)
Cash used in acquisitions, net of cash acquired	$37.6	$18.2

Substantially all of the intangible assets recorded for these acquisitions are deductible for tax purposes.

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5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

The following table summarizes the activity in intangible assets and related accumulated amortization accounts for the six months ended June 30, 2003 and 2004:

	Gross Intangible Assets		
	Goodwill	Other	Total
Balance, December 31, 2002	$1,687.7	$40.0	$1,727.7
Cumulative effect of change in accounting principle	(6.9)	—	(6.9)
Acquisitions	16.7	—	16.7
Other additions	—	.2	.2
Divestitures	(.5)	—	(.5)
Balance, June 30, 2003	$1,697.0	$40.2	$1,737.2

	Accumulated Amortization		
	Goodwill	Other	Total
Balance, December 31, 2002	$(143.5)	$(14.3)	$(157.8)
Cumulative effect of change in accounting principle	(.1)	—	(.1)
Amortization expense	—	(1.8)	(1.8)
Divestitures	.3	—	.3
Balance, June 30, 2003	$(143.3)	$(16.1)	$(159.4)

	Gross Intangible Assets		
	Goodwill	Other	Total
Balance, December 31, 2003	$1,701.6	$43.2	$1,744.8
Acquisitions	7.8	.6	8.4
Other additions	—	1.4	1.4
Balance, June 30, 2004	$1,709.4	$45.2	$1,754.6

	Accumulated Amortization		
	Goodwill	Other	Total
Balance, December 31, 2003	$(143.4)	$(18.2)	$(161.6)
Amortization expense	—	(2.0)	(2.0)
Balance, June 30, 2004	$(143.4)	$(20.2)	$(163.6)

In general, goodwill is tested for impairment on 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 carrying value, then the Company would determine the fair value of the goodwill. The fair value of goodwill is determined by deducting the fair value of an operating segment's identifiable assets and liabilities from the fair value of the operating segment as a whole, as if that operating segment had just been acquired and the purchase price were being initially allocated. If the fair value of the goodwill were less than its carrying value for a segment, an impairment charge would be recorded to earnings in the Company's Consolidated Statement of Income.

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

- A significant adverse change in legal factors or in the business climate,
- An adverse action or assessment by a regulator,
- A more likely than not expectation that a segment or a significant portion thereof will be sold, or

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

The Company incurred no impairment of goodwill as a result of its annual goodwill impairment test in 2003. 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:

	June 30, 2004	December 31, 2003
$225.0 million unsecured notes, net of unamortized discount of $.1 million and including a $3.3 million adjustment to fair market value as of December 31, 2003; interest payable semi-annually in May and November at 6 5/8%; principal due at maturity in May 2004	$ —	$ 228.2
$375.0 million unsecured notes, net of unamortized discount of $.3 million and $.4 million as of June 30, 2004 and December 31, 2003, respectively; interest payable semi-annually in May and November at 7 1/8%; principal due at maturity in 2009	374.7	374.6
$450.0 million unsecured notes, net of unamortized discount of $2.1 million and $2.2 million, and including $(5.1) million and $.9 million of adjustments to fair market value as of June 30, 2004 and December 31, 2003, respectively; interest payable semi-annually in February and August at 6 3/4%; principal due at maturity in 2011	442.8	447.8
$750.0 million unsecured revolving credit facility; interest payable using LIBOR-based rates; $300.0 million matures July 2005 and $450.0 million matures 2007	—	—
Tax-exempt bonds and other tax-exempt financing; fixed and floating interest rates based on prevailing market rates; maturities ranging from 2004 to 2033	477.4	463.2
Other debt; unsecured and secured by real property, equipment and other assets	4.4	6.5
	1,299.3	1,520.3
Less: Current portion	2.4	231.1
Long-term portion	$1,296.9	$1,289.2

As of June 30, 2004, the Company had $355.1 million of availability under its revolving credit facility.

As of June 30, 2004, the Company had $220.9 million of restricted cash, of which $104.2 million were proceeds from the issuance of tax-exempt bonds and other tax-exempt financing that will be used to fund capital expenditures. Restricted cash also includes amounts held in trust as a guarantee of the Company's performance.

Interest paid was $41.2 million (net of $.8 million of capitalized interest) and $40.1 million (net of $1.0 million of capitalized interest) for the six months ended June 30, 2004 and 2003, respectively.

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 swap agreements have total notional values of $225.0 million and $210.0 million. Swap agreements with a notional value of $225.0 million matured in May 2004, and agreements with a notional value of $210.0 million mature in August 2011. These maturities are identical to the Company's public notes that were sold in 1999 and 2001, respectively. Under the swap agreements, the Company pays interest at floating rates based on changes in LIBOR and receives interest at fixed rates of 6 5/8% and 6 3/4%, respectively. The Company has designated these agreements as hedges in changes in the fair value of the Company's 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 fixed rate debt due to changes in interest rates.

As of June 30, 2004, interest rate swap agreements are reflected at fair market value of $(5.1) million and are included in other liabilities and as adjustments to long-term debt in the accompanying Unaudited Condensed Consolidated Balance Sheets. During the six months ended June 30, 2004 and 2003, the Company recorded net interest income of $4.8 million related to its interest rate swap agreements which is included in interest expense in the accompanying Unaudited Condensed Consolidated Statements of Income.

The unsecured revolving credit facility requires the Company to maintain certain financial ratios and comply with certain financial covenants. At June 30, 2004, the Company was in compliance with the financial covenants under these agreements.

7. INCOME TAXES

Income taxes have been provided for the six months ended June 30, 2004 and 2003 based upon the Company's anticipated annual effective income tax rate of 38.0%. Income taxes paid (net of refunds received) were $(24.8) million and $7.5 million for the six months ended June 30, 2004 and 2003, respectively.

In December 2003, the Company received written approval from the Internal Revenue Service to exclude probable airspace from its calculation of landfill amortization, depletion, and final capping, closure and post-closure costs for tax purposes. As a result of this change, the Company recorded a tax receivable of approximately $48.0 million which was collected or used to offset taxes payable during the six months ended June 30, 2004.

8. EMPLOYEE BENEFIT PLANS

In July 1998, the Company adopted the 1998 Stock Incentive Plan ("Stock Incentive Plan") to provide for grants of options to purchase shares of common stock, restricted stock and other equity-based compensation ("Equity-Based Compensation Units") to employees and non-employee directors of the Company who are eligible to participate in the Stock Incentive Plan. As of June 30, 2004, 5.9 million Equity-Based Compensation Units remain available under the Stock Incentive Plan for future grants.

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Stock options are granted at prices equal to the fair market value of the Company's common stock on the date of grant; therefore, no compensation expense is recognized. Compensation expense resulting from grants of restricted stock or stock units is recognized during the vesting period.

Options granted under the Stock Incentive Plan are non-qualified and are granted at a price equal to the fair market value of the Company's Common Stock at the date of grant. Generally, options granted have a term of 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. During the three months ended March 31, 2004, the Company awarded 20,000 deferred stock units to its non-employee directors under its Stock Incentive Plan. These stock units vest immediately but the directors receive the underlying shares only after their board service ends. The stock units do not carry any voting or dividend rights, except the right to receive additional stock units in lieu of dividends.

Also during the three months ended March 31, 2004, the Company awarded 79,500 shares of restricted stock to its executive officers. 7,500 of these restricted shares vest effective January 1, 2005. The remaining 72,000 shares vest in four equal annual installments beginning one year from the date of grant except that vesting may be accelerated based upon the achievement of certain performance targets. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment.

The fair value of stock units and restricted shares on the date of grant is amortized ratably over the vesting period, or the accelerated vesting period if certain performance targets are achieved. The fair value of stock units and restricted shares granted during the three months ended March 31, 2004 was $2.6 million, of which $.9 million was recorded as compensation expense in the Company's Unaudited Condensed Consolidated Statements of Income during the six months ended June 30, 2004. The remaining $1.7 million, representing the unamortized balance of unearned compensation on restricted stock, is included as a separate component of stockholders' equity in the Company's Unaudited Condensed Consolidated Balance Sheets. No stock units or restricted shares were granted during the three months ended June 30, 2004.

A summary of equity-based compensation activity for the six months ended June 30, 2004 is as follows:

	Equity-Based Compensation Units	Weighted-Average Exercise Price
Outstanding at beginning of year	11.8	$17.17
Granted	1.7	24.62
Exercised	(1.3)	16.02
Cancelled	(.1)	17.88
Outstanding at June 30, 2004	12.1	$18.35
Exercisable at June 30, 2004	7.6	$17.05

Had compensation cost for stock option grants under the Company's Stock Incentive Plan been determined pursuant to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company's net income would have decreased accordingly. Using the Black-Scholes option pricing model, the Company's pro forma net income and earnings per share, with related assumptions, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income, as reported	$60.9	$60.4	$117.8	$77.2
Less: Stock-based employee compensation expense pursuant to SFAS 123, net of tax	2.5	1.2	4.5	2.0
Net income, pro forma	$58.4	$59.2	$113.3	$75.2
Basic earnings per share-				
As reported	$ .40	$ .38	$ .76	$ .48
Pro forma	$ .38	$ .37	$ .73	$ .47
Diluted earnings per share-				
As reported	$ .39	$ .37	$ .75	$ .47
Pro forma	$ .38	$ .36	$ .72	$ .46
Assumptions -				
Risk-free interest rates	3.2%	2.7%	3.2%	2.7%
Expected lives	5 years	5 years	5 years	5 years
Expected volatility	40%	40%	40%	40%

9. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

During 2000 through 2004, the Board of Directors authorized the repurchase of up to $750.0 million of Common Stock. As of June 30, 2004, the Company had repurchased a total of 32.7 million shares of its stock for $677.0 million, of which 7.1 million shares were acquired during the six months ended June 30, 2004 for $192.7 million.

In July 2003, the Company announced that its Board of Directors initiated a quarterly cash dividend of $.06 per share. In April 2004, the Company paid a dividend of $9.3 million to stockholders of record as of April 1, 2004. As of June 30, 2004, the Company recorded a dividend payable of approximately $9.1 million to stockholders of record at the close of business on July 1, 2004. In July 2004, the Company's Board of Directors declared a regular quarterly dividend of $.12 per share payable to stockholders of record on October 1, 2004.

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Basic earnings per share is computed by dividing net income by the weighted average number of common shares (including deferred stock units) 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 six months ended June 30, 2004 and 2003 is calculated as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Numerator:				
Net income	$ 60,900	$ 60,400	$117,800	$ 77,200
Denominator:				
Denominator for basic earnings per share	153,080	160,668	154,560	161,370
Effect of dilutive securities —				
Options to purchase common stock	2,592	1,798	2,464	1,532
Unvested restricted stock awards	3	—	3	—
Denominator for diluted earnings per share	155,675	162,466	157,027	162,902
Basic earnings per share	$ .40	$ .38	$ .76	$ .48
Diluted earnings per share	$ .39	$ .37	$ .75	$ .47
Antidilutive securities not included in the diluted earnings per share calculation:				
Options to purchase common stock	22	128	22	179
Weighted average exercise price	$ 31.20	$ 25.45	$ 31.20	$ 24.16

10. SEGMENT INFORMATION

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

Summarized financial information concerning the Company's reportable segments for the respective six months ended June 30, 2004 and 2003, is shown in the following table:

2004	Gross Operating Revenue	Intercompany Operating Revenue (b)	Net Operating Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income	Capital Expenditures	Total Assets
Eastern Region	$ 317.3	$ (50.7)	$ 266.6	$ 20.7	$ 39.6	$ 20.5	$ 865.6
Central Region	340.0	(74.2)	265.8	38.2	50.0	30.3	973.3
Southern Region	361.8	(38.7)	323.1	31.3	57.6	31.1	869.5
Southwestern Region	171.0	(16.9)	154.1	15.9	21.5	10.9	408.5
Western Region	385.6	(75.0)	310.6	22.0	80.7	13.2	788.0
Corporate Entities (a)	.3	—	.3	2.1	(23.2)	12.0	416.9
Total	$1,576.0	$(255.5)	$1,320.5	$130.2	$226.2	$118.0	$4,321.8

2003	Gross Operating Revenue	Intercompany Operating Revenue (b)	Net Operating Revenue	Depreciation, Amortization, Depletion and Accretion	Operating Income	Capital Expenditures	Total Assets
Eastern Region	$ 290.1	$ (44.2)	$ 245.9	$ 17.5	$ 37.1	$ 9.5	$ 811.5
Central Region	326.7	(74.0)	252.7	35.5	51.2	26.1	952.1
Southern Region	333.7	(37.7)	296.0	30.7	53.6	20.4	823.8
Southwestern Region	166.1	(15.0)	151.1	13.8	25.2	11.2	367.6
Western Region	357.0	(70.8)	286.2	23.1	72.2	9.6	788.2
Corporate Entities (a)	—	—	—	1.8	(20.4)	11.3	548.3
Total	$1,473.6	$(241.7)	$1,231.9	$122.4	$218.9	$88.1	$4,291.5

(a) Corporate functions include legal, tax, treasury, information technology, risk management, human resources, national accounts and other typical administrative functions.

(b) Intercompany operating revenue reflects transactions within and between segments and are generally made on a basis intended to reflect the market value of such services.

Total revenue of the Company by revenue source for the three and six months ended June 30, 2004 and 2003 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Collection:				
Residential	$ 164.2	$ 149.4	$ 321.3	$ 294.8
Commercial	182.9	175.7	365.5	349.6
Industrial	140.6	133.0	270.1	253.5
Other	14.3	12.5	28.1	25.0
Total collection	502.0	470.6	985.0	922.9
Transfer and disposal	264.7	249.3	497.9	464.6
Less: Intercompany	(133.5)	(127.9)	(253.9)	(240.1)
Transfer and disposal, net	131.2	121.4	244.0	224.5
Other	50.0	45.3	91.5	84.5
Total revenue	$ 683.2	$ 637.3	$1,320.5	$1,231.9

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

The Company's liabilities for unpaid and incurred but not reported claims at June 30, 2004 were $136.9 million 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 reasonably possible that recorded reserves may not be adequate to cover future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations 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 Consolidated Balance Sheets. (For further information, see Note 6, Debt).

Restricted Cash and Marketable Securities, and Other Financial Guarantees

In the normal course of business, the Company is required by regulatory agencies, governmental entities and contract parties to post performance bonds, letters of credit and/or cash deposits as financial guarantees of the Company's performance. At June 30, 2004, letters of credit totaling $478.7 million were outstanding, and surety bonds totaling $392.8 million were outstanding, which will expire on various dates through 2015.

At June 30, 2004, the Company had $220.9 million of restricted cash deposits and $38.1 million of restricted marketable securities held as financial guarantees, including $104.2 million of restricted cash held for capital expenditures under certain debt facilities, and $34.2 million and $38.1 million of restricted cash and restricted marketable securities, respectively, pledged to regulatory agencies and governmental entities as financial guarantees of the Company's performance related to its final capping, closure and post-closure obligations at its landfills. The Company's restricted marketable securities consist of mutual funds invested in short-term investment grade securities, including mortgage-backed securities and U.S. Government obligations. These securities are available for sale and, as a result, are stated at fair value based upon quoted market prices. Unrealized gains and losses, net of tax, are recorded as a component of accumulated other comprehensive income (loss). The Company liquidated a portion of these marketable securities and used the proceeds to repay the $225.0 million of public notes, which matured in May 2004.

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.

Through the date of the Company's initial public offering in July 1998, the Company filed consolidated federal income tax returns with AutoNation, Inc. ("AutoNation"), its former parent company. The Internal Revenue Service is auditing AutoNation's consolidated tax returns for fiscal years 1997 through 1998. In accordance with the Company's tax sharing agreement with AutoNation, the Company may be liable for certain assessments imposed by the Internal Revenue Service for the periods through June 1998, resulting from this audit. In addition, the Internal Revenue Service is auditing the Company's consolidated tax returns for fiscal years 1998 through 2000. Management believes that the tax liabilities recorded are adequate. However, a significant assessment in excess of liabilities recorded against the Company could have a material adverse effect on the Company's financial position, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in our Form 10-K for the year ended December 31, 2003.

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 141 collection companies in 22 states. We also own or operate 94 transfer stations and 58 active solid waste landfills.

We generate revenue primarily from our solid waste collection operations. Our remaining revenue is obtained from landfill disposal services and other services, including recycling, remediation and composting operations.

The following table reflects our total revenue by source for the three and six months ended June 30, 2004 and 2003 (dollars in millions):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
Collection:								
Residential	$ 164.2	24.0%	$ 149.4	23.4%	$ 321.3	24.3%	$ 294.8	23.9%
Commercial	182.9	26.8	175.7	27.6	365.5	27.7	349.6	28.4
Industrial	140.6	20.6	133.0	20.9	270.1	20.5	253.5	20.6
Other	14.3	2.1	12.5	1.9	28.1	2.1	25.0	2.0
Total collection	502.0	73.5	470.6	73.8	985.0	74.6	922.9	74.9
Transfer and disposal	264.7		249.3		497.9		464.6	
Less: Intercompany	(133.5)		(127.9)		(253.9)		(240.1)	
Transfer and disposal, net	131.2	19.2	121.4	19.1	244.0	18.5	224.5	18.2
Other	50.0	7.3	45.3	7.1	91.5	6.9	84.5	6.9
Total revenue	$ 683.2	100.0%	$ 637.3	100.0%	$1,320.5	100.0%	$1,231.9	100.0%

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

The cost of our collection operations is primarily variable and includes disposal, labor, self-insurance, fuel and equipment maintenance costs. We seek operating efficiencies by controlling the movement of waste from the point of collection through disposal. During three months ended June 30, 2004 and 2003, approximately 54% of the total volume of waste we collected was disposed of at landfills we own or operate.

Our landfill cost of operations includes 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. We expense all indirect landfill development costs as they are incurred. We use life cycle accounting and the units-of-consumption method to recognize certain direct landfill costs related to cell development. In life cycle accounting, certain direct costs are capitalized, and charged to expense based upon the consumption of cubic yards of available airspace. These costs include all costs to acquire and construct a site. Obligations associated with final

capping, closure and post-closure are capitalized, and amortized on a unit-of-consumption basis as airspace is consumed.

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

Our operations are managed and reviewed through five regions that we designate as our reportable segments. From 2003 to 2004, operating income increased in our Eastern, Southern and Western regions due to an overall increase in revenue resulting from the successful execution of our growth strategy. In the Central and Southwestern regions, increased revenue was offset by increased costs for disposal and the long-haul transport of waste by third-party vendors. In addition, operating margins in the Central region continued to be negatively impacted by weak economic conditions. The increase in costs for Corporate Entities from 2003 to 2004 is primarily due to increased insurance and compensation expense.

Business Combinations

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

We acquired various solid waste businesses during the six months ended June 30, 2004 and 2003. The aggregate purchase price we paid in these transactions was $37.8 million and $18.2 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 $60.9 million, or $.39 per diluted share, for the three months ended June 30, 2004, as compared to $60.4 million, or $.37 per diluted share, for the three months ended June 30, 2003. Our income before cumulative effect of changes in accounting principles was $117.8 million for the six months ended June 30, 2004, as compared to $115.0 million for the six months ended June 30, 2003. Net income was $117.8 million for the six months ended June 30, 2004, or $.75 per diluted share, as compared to $77.2 million, or $.47 per diluted share, for the six months ended June 30, 2003. Net income for the six months ended June 30, 2003 includes an after-tax expense of $37.8 million (net of an income tax benefit of $23.1 million), or $.23 per share, as a cumulative effect of a change in accounting principle resulting from the adoption of Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations,” and a change in accounting principle for our methane gas collection systems. See Note 1, Basis of Presentation, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of these changes in accounting principles.

The following table summarizes our costs and expenses in millions of dollars and as a percentage of our revenue for the three and six months ended June 30, 2004 and 2003:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004		2003		2004		2003	
Revenue	$683.2	100.0%	$637.3	100.0%	$1,320.5	100.0%	$1,231.9	100.0%
Expenses:								
Cost of operations	431.2	63.1	399.3	62.7	834.7	63.2	767.0	62.3
Depreciation, amortization and depletion of property and equipment	64.1	9.4	58.2	9.1	120.8	9.2	113.7	9.2
Amortization of intangible assets	1.4	.2	1.2	.2	2.7	.2	2.5	.2
Accretion	3.4	.5	3.1	.5	6.7	.5	6.2	.5
Selling, general and administrative expenses	66.9	9.8	62.0	9.7	129.4	9.8	123.6	10.0
Operating income	$116.2	17.0%	$113.5	17.8%	$ 226.2	17.1%	$ 218.9	17.8%

Revenue. Revenue was $683.2 million and $637.3 million for the three months ended June 30, 2004 and 2003, respectively, an increase of 7.2%. Revenue was $1,320.5 million and $1,231.9 million for the six months ended June 30, 2004 and 2003, respectively, an increase of 7.2%. The following table reflects the components of our revenue growth for the three and six months ended June 30, 2004 and 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Core price	2.1%	1.5%	2.2%	1.5%
Fuel surcharges	.1	.3	.1	.2
Recycling commodities	.5	.2	.5	.4
Total price	2.7	2.0	2.8	2.1
Core volume	3.5	1.8	3.5	2.3
Non-core volume	—	.3	(.1)	.3
Total volume	3.5	2.1	3.4	2.6
Total internal growth	6.2	4.1	6.2	4.7
Acquisitions and divestitures, net	1.0	1.8	1.0	1.7
Taxes (a)	—	.6	—	.7
Total revenue growth	7.2%	6.5%	7.2%	7.1%

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

During the three and six months ended June 30, 2004, our revenue growth from core pricing benefited 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 2004. During the six months ended June 30, 2004, we experienced core volume growth in all lines of our business including our residential collection business resulting from the addition of several new municipal contracts and our landfill and transfer station businesses resulting from newly opened sites and new contracts. We expect this growth to decrease in the latter part of 2004 as we reach the anniversary date of these new contracts and sites.

Cost of Operations. Cost of operations was $431.2 million and $834.7 million for the three and six months ended June 30, 2004, respectively, versus $399.3 million and $767.0 million for the comparable 2003 periods. Cost of

operations as a percentage of revenue was 63.1% and 63.2% for the three and six months ended June 30, 2004 versus 62.7% and 62.3% for the comparable 2003 periods. The increase in aggregate dollars is primarily a result of the expansion of our business through internal growth and acquisitions. The increase in cost of operations as a percentage of revenue is primarily attributable to increased fuel prices and disposal costs. The increase in cost of operations as a percentage of revenue is also due an increase in revenue generated by lines of business that produce lower operating margins and an increase in costs associated with the long-haul transport of waste by third-party vendors.

Depreciation, Amortization and Depletion of Property and Equipment. Expenses for depreciation, amortization and depletion of property and equipment were $64.1 million and $120.8 million for the three and six months ended June 30, 2004 versus $58.2 million and $113.7 million for the comparable 2003 periods. Expenses for depreciation, amortization and depletion of property and equipment as a percentage of revenue were 9.4% and 9.2% for the three and six months ended June 30, 2004 versus 9.1% and 9.2% for the comparable 2003 periods. The increase in such expenses in aggregate dollars is primarily due to the expansion of our business. The increase in such expenses as a percentage of revenue is due to the expansion of our business and increased landfill volumes. This increase was partially offset by a $2.6 million reduction in landfill amortization we recorded during the first quarter of 2004 related to the annual review of our calculations with respect to landfill asset retirement obligations.

Amortization of Intangible Assets. Expenses for amortization of intangible assets were $1.4 million and $2.7 million for the three and six months ended June 30, 2004 versus $1.2 million and $2.5 million for the comparable 2003 periods. Amortization of intangible assets as a percentage of revenue was .2% for the three and six months ended June 30, 2004 and 2003, respectively. The increase in such expenses in aggregate dollars is due to the amortization of intangible assets associated with businesses acquired.

Accretion Expense. Accretion expense was $3.4 million and $6.7 million for the three and six months ended June 30, 2004, versus $3.1 million and $6.2 million for the comparable 2003 periods. Accretion expense as a percentage of revenue was .5% for the three and six months ended June 30, 2004 and 2003, respectively. The increase in such expenses in aggregate dollars is primarily due to the expansion of our landfill operations.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $66.9 million and $129.4 million for the three and six months ended June 30, 2004 versus $62.0 million and $123.6 million for the comparable 2003 periods. Selling, general and administrative expenses as a percentage of revenue were 9.8% for the three and six months ended June 30, 2004 versus 9.7% and 10.0% for the comparable 2003 periods. The increase in such expenses in aggregate dollars is primarily the result of the expansion of our operations through internal growth and acquisitions. The increase in such expenses as a percentage of revenue for the three month period is primarily due to an increase in compensation costs partially offset by a decrease in bad debt expense. The decrease in such expenses as a percentage of revenue for the six month period is primarily due to a decrease in bad debt expense partially offset by higher compensation costs.

Interest Expense. Interest expense relates primarily to borrowings under our unsecured notes and tax-exempt bonds. Interest expense was $19.2 million and $39.9 million for the three and six months ended June 30, 2004 versus $19.8 million and $40.2 million for the comparable 2003 periods. During the three months ended June 30, 2004, $225.0 million of public notes matured and were repaid resulting in a reduction in interest expense.

Capitalized interest was $.4 million and $.8 million for the three and six months ended June 30, 2004 versus $.6 million and $1.0 million for the comparable 2003 periods.

Interest and Other Income (Expense), Net. Interest and other income, net of other expense, was $1.2 million and $3.7 million for the three and six months ended June 30, 2004 versus $3.8 million and $6.8 million for the comparable 2003 periods. The decrease in aggregate dollars versus the comparable periods last year is primarily due to a decrease in other income and a decrease in interest income resulting from lower average outstanding cash and restricted cash balances. During the three months ended June 30, 2004, we used a portion of our outstanding cash and restricted cash balances to repay $225.0 million of public notes.

Income Taxes. The provision for income taxes was $37.3 million and $72.2 million for the three and six months ended June 30, 2004 versus $37.1 million and $70.5 million for the comparable 2003 periods. Our effective income

tax rate was 38.0% for the three and six months ended June 30, 2004 and 2003. Income taxes have been provided based upon our anticipated annual effective tax rate.

Cumulative Effect of Changes in Accounting Principles. During the first quarter of 2003, we adopted SFAS 143. SFAS 143 required us to change the methodology we used to record final capping, closure and post-closure costs related to our landfills. As of January 1, 2003, we recorded an after-tax expense of $20.8 million, or $33.6 million on a pre-tax basis, as a cumulative effect of a change in accounting principle resulting from the adoption of SFAS 143. In addition, we also recorded an after-tax expense of $17.0 million, or $27.4 million on a pre-tax basis, as a cumulative effect of a change in accounting principle for our methane gas collection systems. This change in accounting for methane gas collection systems was prompted by a thorough evaluation of our landfill accounting policy in connection with the adoption of SFAS 143 and is consistent with the methodology used by other participants in the waste industry.

Landfill and Environmental Matters

Available Airspace

The following table reflects landfill airspace activity for landfills owned or operated by us for the six months ended June 30, 2004:

	Balance as of December 31, 2003	Landfills Acquired, Divested or Closed	Permits Granted	Airspace Consumed	Changes in Engineering Estimates	Changes in Design	Reclassifications	Balance as of June 30, 2004
Permitted airspace:								
Cubic yards (in millions)	1,498.6	24.4	7.0	(20.1)	(.2)	—	(70.3)	1,439.4
Number of sites	58	—	—					58
Expansion airspace:								
Cubic yards (in millions)	268.7	—	(7.0)	—	.1	2.0	70.3	334.1
Number of sites	15	—	(1)				1	15
Total available airspace:								
Cubic yards (in millions)	1,767.3	24.4	—	(20.1)	(.1)	2.0	—	1,773.5
Number of active sites	58	—						58

Changes in engineering estimates typically include minor modifications to 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 2004, total available airspace increased by 6.2 million cubic yards primarily due to the acquisition of a landfill partially offset by airspace consumption.

During the three months ended June 30, 2004, we reclassified 70.3 million cubic yards of available airspace related to a certain landfill from permitted airspace to expansion airspace. The expansion airspace may require a conditional use permit from the local municipality, which we currently do not possess. Based upon our evaluation of facts at this time, we believe that this matter will be resolved in our favor. We also believe that the expansion airspace continues to meet our criteria for inclusion in total available disposal capacity. See Note 2, Accrued Landfill, Environmental and Legal Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of our expansion airspace criteria. If this matter is not resolved in our favor, the expansion would not meet our criteria for inclusion in total available disposal capacity. This could result in a non-cash impairment charge, the amount of which cannot be reasonably estimated at this time. See Note 3, Property and Equipment, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of asset impairments.

This landfill serves Northeast Ohio, which includes our Cleveland, Akron and Canton marketplaces. Revenue generated from third parties at the landfill and total revenue generated by these markets account for less than one percent and less than three percent of our company’s total revenue, respectively. The landfill has approximately three to four years of remaining permitted airspace at current volumes.

As of June 30, 2004, we owned or operated 58 active solid waste landfills with total available disposal capacity estimated to be 1.8 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 annually by

engineers utilizing information provided by annual aerial surveys. As of June 30, 2004, total available disposal capacity is estimated to be 1.5 billion in-place cubic yards of permitted airspace plus .3 billion in-place cubic yards of probable expansion airspace. Before airspace included in an expansion area is determined to be probable expansion airspace and, therefore, included in our calculation of total available disposal capacity, it must meet our expansion criteria. See Note 2, Accrued Landfill, Environmental and Legal Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

As of June 30, 2004, fifteen of our landfills meet the criteria for including expansion airspace in their total available disposal capacity. At projected annual volumes, these fifteen landfills have an estimated remaining average site life of 32 years, including the expansion airspace. The average estimated remaining life of all of our landfills is 31 years.

The following table reflects the estimated operating lives of our active landfill sites based on available disposal capacity using current annual volumes as of June 30, 2004:

	Number of Sites without Expansion Airspace	Number of Sites with Expansion Airspace	Total Sites	Percent of Total
0 to 5 years	9	0	9	15%
5+ to 10 years	6	1	7	12
10+ to 20 years	9	3	12	21
20+ to 40 years	11	7	18	31
40+ years	8	4	12	21
Total	43	15	58	100%

Sites with expansion airspace include five landfills with less that five years of remaining permitted airspace.

Final Capping, Closure and Post-Closure Costs

As of January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations.” This statement required us to change the methodology we used to record final capping, closure and post-closure costs. See Note 2, Accrued Landfill, Environmental and Legal Costs, of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

As of June 30, 2004, accrued final capping, closure and post-closure costs were $213.8 million. The current portion of these costs of $25.4 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in other current liabilities. The long-term portion of these costs of $188.4 million is reflected in our Unaudited Condensed Consolidated Balance Sheets in accrued landfill, environmental and legal costs.

Investment in Landfills

The following table reflects changes in our investments in landfills for the six months ended June 30, 2004 and the future expected investment as of June 30, 2004 (in millions):

	Balance as of December 31, 2003	Capital Additions	Transfers and Adjustments	Retirements	Landfills Acquired, Net of Divestitures
Non-depletable landfill land	$ 49.5	$ .2	$ .9	$ —	$ 1.5
Landfill development costs	1,335.2	4.8	22.0	(2.0)	28.8
Construction in progress — landfill	60.8	31.3	(22.9)	—	—
Accumulated depletion and amortization	(644.6)	—	(.8)	2.0	(1.1)
Net investment in landfill land and development costs	$ 800.9	$36.3	$ (.8)	$ —	$29.2

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	Non-Cash Additions for Asset Retirement Obligations	Additions Charged to Expense	Balance as of June 30, 2004	Expected Future Investment	Total Expected Investment
Non-depletable landfill land	$ —	$ —	$ 52.1	$ —	$ 52.1
Landfill development costs	6.3	—	1,395.1	1,575.5	2,970.6
Construction in progress — landfill	—	—	69.2	—	69.2
Accumulated depletion and amortization	—	(46.0)	(690.5)	—	(690.5)
Net investment in landfill land and development costs	$6.3	$(46.0)	$ 825.9	$1,575.5	$2,401.4

The following table reflects our net investment in our landfills, excluding non-depletable land and our depletion, amortization and accretion expense for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
Number of active landfills owned or operated	58	56
Net investment, excluding non-depletable land (in millions)	$ 773.8	$ 689.1
Total estimated available disposal capacity (in millions of cubic yards)	1,773.5	1,761.5
Net investment per cubic yard	$ .44	$ .39
Landfill depletion and amortization expense (in millions)	$ 46.0	$ 44.6
Accretion expense (in millions)	6.7	6.2
	52.7	50.8
Airspace consumed (in millions of cubic yards)	20.1	18.8
Depletion, amortization and accretion expense per cubic yard of airspace consumed	$ 2.62	$ 2.70

The decrease in depletion, amortization and accretion expense per cubic yard of airspace consumed from 2003 to 2004 is due to a $2.6 million reduction in landfill amortization we recorded during the three months ended March 31, 2004 related to the annual review of our estimates with respect to landfill asset retirement obligations. During the six months ended June 30, 2004 and 2003, our weighted average compaction rate was approximately 1,500 pounds per cubic yard.

As of June 30, 2004, we expect to spend an estimated additional $1.6 billion on existing landfills, primarily related to cell construction, over their expected remaining lives. Our total expected gross investment, excluding non-depletable land, estimated to be $2.3 billion, or $1.32 per cubic yard, is used in determining our depletion and amortization expense based upon airspace consumed using the units-of-consumption method.

We accrue costs related to environmental remediation activities through a charge to income in the period such liabilities become probable and can be reasonably estimated. We also accrue costs related to environmental remediation activities associated with properties acquired through business combinations as a charge to costs in excess of fair value of net assets acquired or landfill purchase price allocated to airspace, as appropriate. No material amounts were charged to expense during the six months ended June 30, 2004 and 2003.

Financial Condition

At June 30, 2004, we had $220.9 million of restricted cash deposits and $38.1 million of restricted marketable securities held as financial guarantees, including $104.2 million of restricted cash held for capital expenditures under certain debt facilities, and $34.2 million and $38.1 million of restricted cash and restricted marketable securities, respectively, pledged to various regulatory agencies and governmental entities as financial guarantees of our

performance related to final capping, closure and post-closure obligations at our landfills. Restricted marketable securities consist of mutual funds invested in short-term investment grade securities, including mortgage-backed securities and U.S. Government obligations. These securities are available for sale and, as a result, are stated at fair value based upon quoted market prices. Unrealized gains and losses, net of tax, are recorded as a component of accumulated other comprehensive income (loss). We liquidated a portion of these marketable securities and used the proceeds to repay the $225.0 million of public notes, which matured in May 2004.

In July 1998, we entered into a $1.0 billion unsecured revolving credit facility with a group of banks. $500.0 million of the credit facility was scheduled to expire in July 2002 and the remaining $500.0 million was scheduled to expire in July 2003. As a result of our strong financial position and liquidity, in February 2002, we reduced the short- and long-term portions of our credit facility to $300.0 million and $450.0 million, respectively. In July 2002, we renewed the long- and short-term portions of our credit facility, respectively, on substantially the same terms and conditions with the long-term portion expiring in 2007 and the short-term portion expiring in 2003. The short-term portion of the facility was renewed and expires in July 2005. Borrowings under the credit facility bear interest at LIBOR-based rates. We use our operating cash flow and proceeds from our credit facilities to finance our working capital, capital expenditures, acquisitions, share repurchases, dividends and other requirements. As of June 30, 2004, we had $355.1 million available under the credit facility.

In May 1999, we sold $600.0 million of unsecured notes in the public market. $225.0 million of these notes bore interest at 6 5/8% per annum and matured in May 2004. The remaining $375.0 million bear interest at 7 1/8% per annum and mature in 2009. Interest on these notes is payable semi-annually in May and November. The $225.0 million and $375.0 million in notes were offered at a discount of $1.0 million and $.5 million, respectively. Proceeds from the notes were used to repay our revolving credit facility.

In August 2001, we sold $450.0 million of unsecured notes in the public market. The notes bear interest at 6 3/4% 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. Proceeds from the notes were used to repay our revolving credit facility.

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. The swap agreements have total notional values of $225.0 million and $210.0 million, respectively, and require our company to pay interest at floating rates based upon changes in LIBOR and receive interest at fixed rates of 6 5/8% and 6 3/4%, respectively. Swap agreements with a notional value of $225.0 million matured in May 2004, and agreements with a notional value of $210.0 million mature in August 2011.

At June 30, 2004, we had $477.4 million of tax-exempt bonds and other tax-exempt financings outstanding. Borrowings under these bonds and other financings bear interest based on fixed or floating interest rates at the prevailing market and have maturities ranging from 2004 to 2033. As of June 30, 2004, we had $104.2 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, our cash from operating activities and proceeds from 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 would be able to raise additional debt or equity financing, if necessary, to fund special corporate needs or to complete acquisitions. However, we cannot assure you that we would be able to obtain additional financing under favorable terms.

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Selected Balance Sheet Accounts

The following table reflects the activity in our allowance for doubtful accounts, final capping, closure, post-closure and remediation liabilities and accrued self-insurance during the six months ended June 30, 2004 (in millions):

	Allowance for Doubtful Accounts	Final Capping, Closure and Post-Closure	Remediation	Self-Insurance
Balance, December 31, 2003	$19.0	$204.7	$54.7	$122.2
Non-cash asset additions	—	9.4	.8	—
Accretion	—	6.7	—	—
Other additions charged to expense	1.5	—	—	85.7
Revisions in estimates of future cash flows	—	(3.1)	—	—
Acquisitions	—	.6	—	—
Payments or usage	(4.4)	(4.5)	(.4)	(71.0)
Balance, June 30, 2004	16.1	213.8	55.1	136.9
Current portion	16.1	25.4	4.9	50.7
Long-term portion	$ —	$188.4	$50.2	$ 86.2

Our expense related to doubtful accounts as a percentage of revenue for the six months ended June 30, 2004 was .11%. As of June 30, 2004, accounts receivable were $269.2 million, net of allowance for doubtful accounts of $16.1 million, resulting in days sales outstanding of 35, or 23 days net of deferred revenue. In addition, at June 30, 2004, our accounts receivable in excess of 90 days old totaled $13.3 million, or 4.7% of gross receivables outstanding.

Property and Equipment

The following tables reflect the activity in our property and equipment accounts for the six months ended June 30, 2004 (in millions):

	Gross Property and Equipment						
	Balance as of December 31, 2003	Capital Additions	Retirements	Acquisitions, Net of Divestitures	Non-Cash Additions to Asset Retirement Obligations	Transfers and Adjustments	Balance as of June 30, 2004
Other land	$ 94.4	$ 1.5	$ (.4)	$ .9	$ —	$ (.1)	$ 96.3
Non-depletable landfill land	49.5	.2	—	1.5	—	.9	52.1
Landfill development costs	1,335.2	4.8	(2.0)	28.8	6.3	22.0	1,395.1
Vehicles and equipment	1,490.6	68.4	(14.5)	2.6	—	.7	1,547.8
Buildings and improvements	267.4	6.1	(.1)	.3	—	1.7	275.4
Construction in progress — landfill	60.8	31.3	—	—	—	(22.9)	69.2
Construction in progress — other	6.4	5.7	—	—	—	(2.2)	9.9
Total	$3,304.3	$118.0	$(17.0)	$34.1	$6.3	$ .1	$3,445.8

	Accumulated Depreciation, Amortization and Depletion					
	Balance as of December 31, 2003	Additions Charged to Expense	Retirements	Acquisitions, Net of Divestitures	Transfers and Adjustments	Balance as of June 30, 2004
Landfill development costs	$ (644.6)	$ (46.0)	$ 2.0	$(1.1)	$(.8)	$ (690.5)
Vehicles and equipment	(666.4)	(69.8)	12.4	—	—	(723.8)
Buildings and improvements	(62.3)	(5.0)	—	—	.8	(66.5)
Total	$(1,373.3)	$(120.8)	$14.4	$(1.1)	$—	$(1,480.8)

Liquidity and Capital Resources

The major components of changes in cash flows for the six months ended June 30, 2004 and 2003 are discussed below.

Cash Flows From Operating Activities. Cash provided by operating activities was $361.9 million and $252.3 million for the six months ended June 30, 2004 and 2003, respectively. The changes in cash provided by operating activities during the periods are due to expansion of our business, the timing of payments received for accounts receivable, and the timing of payments for accounts payable and income taxes. In December 2003, we received written approval from the Internal Revenue Service to exclude probable airspace from our calculation of landfill amortization, depletion, and final capping, closure and post-closure costs for tax purposes. As a result of this change, we recorded a tax receivable of approximately $48.0 million which was collected or used to offset taxes payable during the six months ended June 30, 2004. Also during the six months ended June 30, 2004, we collected a $23.0 million note receivable associated with a divested business.

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 $16.0 million and $121.9 million for the six months ended June 30, 2004 and 2003, respectively, and consists primarily of cash used for capital additions and business acquisitions in 2004 and 2003 and cash provided by restricted marketable securities in 2004. Capital additions were $118.0 million and $88.1 million for the six months ended June 30, 2004 and 2003, respectively. Cash used to acquire businesses, net of cash acquired, was $37.6 million and $18.2 million during the six months ended June 30, 2004 and 2003, respectively. During the three months ended June 30, 2004, we liquidated a significant portion of our restricted marketable securities and used the proceeds to repay $225.0 million of public notes.

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

Cash Flows Used In Financing Activities. Cash used in financing activities for the six months ended June 30, 2004 and 2003 was $399.4 million and $24.3 million, respectively, and consists primarily of purchases of common stock for treasury and payments of notes payable and long-term debt.

During 2000 through 2004, our board of directors authorized the repurchase of up to $750.0 million of our common stock. As of June 30, 2004, we repurchased a total of 32.7 million shares of our stock for $677.0 million of which 7.1 million shares were acquired during the six months ended June 30, 2004 for $192.7 million.

In July 2003, our board of directors initiated a quarterly dividend of $.06 per share. In April 2004, we paid a dividend of $9.3 million to stockholders of record as of April 1, 2004. As of June 30, 2004, we recorded a dividend payable of approximately $9.1 million to stockholders of record at the close of business on July 1, 2004. In July 2004, our board of directors declared a regular quarterly dividend of $.12 per share payable to stockholders of record on October 1, 2004.

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 ratings. As of June 30, 2004, our senior debt was rated BBB+/positive by Standard & Poor’s, BBB+/positive by Fitch and Baa2/stable by Moody’s.

Free Cash Flow

We define free cash flow, which is not a measure determined in accordance with generally accepted accounting standards in the United States, as cash provided by operating activities less purchases of property and equipment plus proceeds from the sale of property and equipment as presented in our consolidated statement of cash flows. Our free cash flow for the three and six months ended June 30, 2004 is calculated as follows (in millions):

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Cash provided by operating activities.	$171.6	$ 361.9
Purchases of property and equipment	(79.2)	(118.0)
Proceeds from the sale of property and equipment	.9	2.6
Free cash flow	$ 93.3	$ 246.5

We believe that the presentation of free cash flow, which is a non-GAAP financial measure, provides useful information regarding our recurring cash provided by operating activities after expenditures for property and equipment, net of proceeds from the sale 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. 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 delay the collection and disposal of waste, reduce the volume of waste generated, or delay the construction or expansion of our landfill sites and other facilities.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation 46, “Consolidation of Variable Interest Entities.” FIN 46 introduced a new consolidation model which determines control and consolidation based upon the majority beneficiary of the potential variability in gains and losses of the entity being evaluated. This interpretation was effective for all variable interest entities beginning March 31, 2004. We evaluated our organizational structure and concluded that FIN 46 has no impact on our consolidated financial position, results of operations or cash flows.

There are no other new accounting pronouncements that are significant to our company.

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Disclosure Regarding Forward Looking Statements

Certain statements and information included herein constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company 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 the Company’s estimates and assumptions concerning its selected balance sheet accounts, final capping, closure, post-closure and remediation costs, available airspace, and projected costs and expenses related to the Company’s landfills and property and equipment, and labor, fuel rates and economic and inflationary trends, turn out to be correct or appropriate, and various factors that will impact the actual business and financial performance of the Company such as competition and demand for services in the solid waste industry; the Company’s ability to manage growth; compliance with, and future changes in, environmental regulations; the Company’s ability to obtain approvals in connection with expansions at the Company’s landfills; the ability to obtain financing on acceptable terms to finance the Company’s operations and growth strategy and for the Company to operate within the limitations imposed by financing arrangements; the ability of the Company to repurchase common stock at prices that are accretive to earnings per share; the Company’s 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 the control of the Company; dependence on large, long-term collection contracts; dependence on acquisitions for growth; risks associated with undisclosed liabilities of acquired businesses; risks associated with pending legal proceedings; and other factors contained in the Company’s filings with the Securities and Exchange Commission.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report in accumulating and communicating to our management, including our Chief Executive Officer and Chief Financial Officer, material information required to be included in the reports we file or submit under the Securities Exchange Act of 1934 as appropriate to allow timely decisions regarding required disclosure.

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 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

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 (April 1, — April 30, 2004)	1,053,483	$28.20	1,018,300	$143.9
Month #2 (May 1, — May 31, 2004)	1,779,600	28.39	1,779,600	93.4
Month #3 (June 1, — June 30, 2004)	717,000	28.39	717,000	73.0
Total	3,550,083	$28.33	3,514,900	$ 73.0

* Includes 35,183 shares purchased in the open market in connection with our 401(k) and deferred compensation programs.

The share purchases reflected in the table above, except those purchased in connection with employee benefit plans, were made pursuant to our $200.0 million and $75.0 million repurchase programs approved by our board of directors in October 2003 and April 2004, respectively. 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 program.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 11, 2004, we held our annual stockholders meeting. The holders of 138,448,215 shares of common stock were present in person or represented by proxy at the meeting. At the meeting, our stockholders elected the following persons to serve as our directors until the next annual meeting of stockholders or until their respective successors are duly elected and qualified:

Director Nominee	Votes Cast For	Votes Withheld
James E. O’Connor	137,204,760	1,243,455
Harris W. Hudson	137,572,359	875,856
John W. Croghan	137,203,111	1,245,104
W. Lee Nutter	137,576,904	871,311
Ramon A. Rodriguez	137,170,160	1,278,055
Allan C. Sorenson	137,200,960	1,247,255

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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

(b) Reports on Form 8-K:

(1) Form 8-K, dated April 28, 2004, filed under Item 5, including a press release announcing the Company's Board of Directors had approved its regular quarterly dividend as well as increases in its annual dividend and share repurchase programs.

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SIGNATURES

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

REPUBLIC SERVICES, INC.

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

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

Date: August 9, 2004

EXHIBIT 31.1

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James E. O’Connor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Republic Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2004

/s/ James E. O’Connor

James E. O’Connor
Chairman and Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tod C. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Republic Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 9, 2004

/s/ Tod C. Holmes

Tod. C. Holmes
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Republic Services, Inc. (the “Company”) for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James E. O’Connor, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James E. O’Connor

James E. O’Connor
Chairman and Chief Executive Officer

August 9, 2004

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Republic Services, Inc. (the “Company”) for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tod C. Holmes, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tod C. Holmes

Tod C. Holmes
Senior Vice President and Chief Financial Officer

August 9, 2004